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2018

ANNUAL REPORT

Jan. 1, 2018~ Dec. 31, 2018

Headquarters

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Title : Exec. Vice President
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Deputy spokesperson

Name : Mei-Ling Chen
Title : Consultant and Chief Secretary
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Overseas Securities Exchange : None.

Stock Transfer Agent

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Tel : (886) 2-2586-5859
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Credit Rating Agency

Name : Fitch Australia Pty Ltd. Taiwan Branch
Address : Suite 1306, 13F, 205, Tun Hwa N. Rd.,
Taipei, Taiwan
Tel : (886) 2 8175 7600
Website : www.fitchratings.com.tw

Auditors

CPA : Jen-Yao Hsieh, Ping-Chang Su
Company : Crowe Horwath (TW) CPAs
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Kaohsiung City, Taiwan
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Website : www.crowehorwath.net/tw/



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Retired on Apr.26.2019

Chang, Yun-peng

Chairman



Ruon-Way Chen

In 2018, notwithstanding the hyper-competitive domestic market and the decrease in deposit spreads leading to the dwindling of profitability, the Bank took a proactive approach and adjusted its overseas investments. Indebted to all its employees' efforts, the Bank achieved a net interest income of NT\$2,632 million, which increased by 3.83% from NT\$2,535 million in 2017, with a net non-interest income of NT\$868 million in 2018, which increased by 14.66% from NT\$757 million in 2017. Due to the bad debt expenses from the Ching-Fu Group's NPL, amortized over 2 years, after-tax earnings were reduced to NT\$0.46 per share, which increased by 2.22% from NT\$0.45 in 2017.

In the year 2019, the Directorate-General of Budget, Accounting and Statistics, Executive Yuan estimated an economic growth rate of 2.27%. As a result of the intensifying US-China trade conflict, Taiwanese businesses are urged to return and spurred to transfer orders. However, the domestic investment environment still requires improvement, and the effect of inbound investment is still under observation. Since the domestic economy is highly associated with the global economy and with the U.S. and China, the two major economies in the world and Taiwan's most important export markets, it will be the beginning of uncertainty if the trade war intensifies and the financial market contracts.

Reviews of our operations in 2018 and our business plans for 2019 are described in following pages.



President

1.1 Operating Performance in 2018

1.1.1 Domestic and Foreign Financial Environment

In 2018, driven by the global economic expansion, Taiwan's economic growth rate reached 2.63%, and the TAIEX reached 10,000 points. However, the US-China trade war, the Fed's interest rate raise, and the appreciation of the U.S. Dollar not only intensified the fluctuation of global stock markets and foreign exchange markets, but also triggered the downturn of the optimistic economy. It is noteworthy that the International Monetary Fund (IMF) released the "World Economic Outlook" report in which the 2019 global growth forecast was revised down.

1.1.2 Transformation of the Bank's Organization

- I. On January 23, 2018, the Insurance Agent Department of BOK was established, merging the subsidiaries "Kaohsiung Bank General Insurance Agent Co., Ltd." and "Kaohsiung Bank Life Insurance Agent Co., Ltd.".
- II. On February 7, 2018, the Liu Ho Branch was moved to No.59, Sec. 4, Wenxin Rd., Beitun Dist., Taichung City, and renamed the Beitun Branch.
- III. On March 1, 2018, the Treasury Department was renamed the Financial Markets Department.
- IV. On March 1, 2018, the Business Administration Department-Accounting Division was upgraded and renamed the Financial & Accounting Department.
- V. On March 1, 2018, the Research & Development Department was merged into the Business Administration Department-Sales Development Division, and renamed the Business Management Department.



1.1.3 Results of Business Plans and Operating Strategies for FY 2018

Unit : NT\$/US\$ 100 Million, %

Items \ FY	2018 Actual number	2017 Actual number	Increase (or decrease) amount	Increase (or decrease) ratio
Average Deposits Balance	2,307.58	2,192.36	115.22	5.26
Average Loans Balance	1,766.75	1,708.01	58.74	3.44
Foreign Exchange Business (US\$)	87.80	65.51	22.29	34.03
Commission & service fees	5.55	5.12	0.43	8.40
Income before tax	4.88	4.99	(0.11)	(2.20)

1.1.4 Execution of Business Target:

Unit: NT\$/US\$ 100 Million, %

Items \ FY	2018 Actual number	2018 Business target	Achievement ratio
Average Deposits Balance	2,307.58	2,258.00	102.20
Average Loans Balance	1,766.75	1,800.00	98.15
Foreign Exchange Business (US\$)	87.80	58.00	151.38
Commission & service fees	5.55	5.82	95.36

1.1.5 Analyses of Financial Revenue, Expenditure and Profitability

The changes in 2018 financial result as compared with the same period of the previous year (2017) are shown below:

Unit : NT\$ Million,%

Item		2018	2017	Increase (or decrease) amount	Increase (or decrease) ratio
Net interest revenue		2,632	2,535	97	3.83
Net non-interest revenue		868	757	111	14.66
Net revenue		3,500	3,292	208	6.32
Credit loss expenses		(718)	(590)	128	21.69
Operating expenses		(2,294)	(2,203)	91	4.13
Income before tax		488	499	(11)	(2.20)
Net income		480	452	28	6.19
EPS after income tax		0.46	0.45	0.01	2.22
ROA	Before income tax	0.18	0.19	—	(0.01)
	After income tax	0.18	0.17	—	0.01
ROE	Before income tax	3.41	3.74	—	(0.33)
	After income tax	3.35	3.39	—	(0.04)

1.1.6 Status of R & D

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

1.2 Business Plan in 2019

1.2.1 Business Objectives and Important Operating Policies

I. Loan — Increase interest and fee income:

- (i) Increase the proportion of SME loans to local industries, fully supporting 5+2 industries and local industries.
- (ii) Provide one-stop service for quality construction loans to increase interest and service charge income.
- (iii) Provide mortgage projects for quality client groups, to maintain mortgage volume and increase the number of non-mortgages loan clients to increase interest spreads.

II. Deposits — Reduce funding cost:

- (i) Adjust deposit structures to reduce funding cost.
- (ii) Expand new sources of deposits and increase the number of corporate depositors.
- (iii) Increase demand deposits that are low in capital costs and increase the proportion of demand deposits.
- (iv) Divert deposits that are high in capital costs to foreign exchange deposits or held as financial planning commodities.

III. Foreign Exchange — Expand interest spread, increase revenue:

- (i) Promote foreign currency loan and international syndicated loans to increase overall revenue.
- (ii) Expand deposit base and increase the number of foreign currency deposit customers.
- (iii) Increase the amount of foreign currency deposits to support foreign currency loans and international syndicated loans with a view to reducing the cost of inter-bank lending.
- (iv) Increase the amount of foreign exchange business and income from commission & service fees of foreign currency.

IV. Non-interest income — Increase the proportion in total revenue:

- (i) Increase low-risk commission income:
 - A. Enhance wealth management clients, develop diverse wealth management products to reinforce sales development and increase overall revenue.
 - B. Promote long-term premiums that are paid in installments, introduce new life insurance to different target groups.
 - C. Promote trust services including real estate (house building) trust, real estate value trust, ever-rich trust, charitable trust and public officials property trust.
- (ii) Improve performance of financial operations:
 - A. Improve domestic and overseas stock, fund and bond operations.
 - B. Stimulate transaction demand for clients' commercial foreign exchange and financial derivatives.
 - C. Augment investments in securities denominated in foreign currencies and increase income.

V. Develop Digital Banking — Optimize Online Customer Service:

- (i) Continue to improve online banking services and increase the proportion of off-counter transactions.
- (ii) Improve overall mobile App service, strengthen safety control of mobile transaction.
- (iii) Collaborate with other industries to introduce new payment methods to extend the exposure of e-banking.
- (iv) Launch digital banking service in response to the trend of technology development in digital financing.

VI. Strengthen Legal Compliance — Improve operational efficiency and implementation of regulations:

- (i) Propose complete plans for adequate compliance with rules and regulations and improve compliance effectiveness.
- (ii) Implement operations regarding monitoring the risk of regulatory changes to prevent breaching of the law.
- (iii) Commit to the implementation of the most up-to-date AML/CFT regulations, CRS regulations, and regulations regarding PIMS and GDPR. Reinforce legal compliance training of our personnel, and establish a law-abiding corporate culture.



Directors Team of BOK



VII. Internal Control — Balance between risk control and operational efficiency:

- (i) Supervisors in each department should reinforce their assistance and monitoring of their branches to bolster the effectiveness of the second line of defense.
- (ii) Continue to strengthen the three line of defense and implement self-auditing and fraud prevention. The general audit mechanism review will remain to strengthen the internal control system and simplify operating procedures.

1.2.2 Expected Business Objective

- I. Average Deposits Balances : NT\$ 225.10 billion.
- II. Average Loans Balances : NT\$ 182.00 billion.
- III. Foreign Exchange Business : US\$ 8.60 billion.
- IV. Commission and Service Fees : NT\$ 0.6095 billion.

1.3 Development Strategy in Future

The Bank will continue its corporate philosophy of stable growth in business and development in the Taiwanese market to a greater depth with the expansion of overseas banking business. This will help to enhance profitability and provide innovative and diversified financial services to customers. The rights and privileges of customers, shareholders, and employees will be the core value of the Bank. Under the corporate philosophy of “Stable operation”, “Structure adjustment”, “Profit augmentation”, “Impetus for transformation”, “Emphasis on internal control” and “Optimization of information”, the Bank will emerge as a first-rate bank among domestic banks.

1.4 The Impact of the external Competitive Environment, Regulatory Environment, and Macroeconomic Environment

1.4.1 External competitive environment

The fierce competition in Taiwan’s banking industry has caused an environment of low interest rates. In return, the market competition further intensified, limiting sources of domestic profit growth. In addition, operating costs spiked due to the demand for AML/CFT and information security monitors in compliance with regulations of the governing authority. With the release of “internet-only bank” licenses, the financial market is expected to be even more competitive.

1.4.2 Regulatory environment

With global financial liberalization, the advancement of Internet technology, and ever-innovative methods of money laundering, the Bank is amending its procedure for internal control against AML and CFT, in accordance with Money Laundering Control Act, Regulations Governing Anti-Money Laundering of Financial Institutions, and the template of the “Guidelines Governing Anti-Money Laundering and Countering Terrorism Financing” set out by the relevant association to comply with the law and regulations.

To comply with Regulations Governing the Implementation of the Common Standard on Reporting and Due Diligence for Financial Institutions (CRS) and Regulations Governing the Exchange of Tax Information



Managing
Director
Ho-Chung Fu



Independent
Director
Mei-Yueh Ho



Director
Richard Lee



Director
Chung-Hsin Liu



Director
Wayne Tseng



Director
Jueifang P. Chen

Concerning Agreements on Tax Matters (TIEAs), the Bank has been implementing relative CRS procedures and trainings for opening new accounts as stipulated by CRS for the purpose of performing and reporting due diligence in accordance with CRS starting the year 2019.

To develop a corporate culture of honesty and transparency and promote a sound corporate operation, the Bank has set forth “Ethical Corporate Management Best Practice Principles” and “Procedures for Whistleblowing” to establish a positive image and to create a sustainable environment.

In accordance with the General Data Protection Regulation (GDPR) which came into effect on May 25, 2018, the Bank assessed, according to the requirements of the competent authorities, its compatibility with GDPR to be extremely low. The Bank will continue to follow the Personal Information Protection Act, and observe the rules and guidelines set forth by EU / EU members countries for the implementation of personal information protection mechanisms.

1.4.3 Macroeconomic environment

With the rapid development of global digital technology and the challenges of Banking 4.0, “Banking everywhere, never at a bank”, the Bank launched a digital financial business development plan through a comprehensive promotion of the digital transformation strategy in three phases, including the upgrade and optimization of personal online banking, corporate financial network, and mobile banking app service functions. The Bank is expanding the functions of its CRM system and developing basic big data analysis. It is developing big data analysis combined with AI applications, and adjusting for Fintech's development.

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

Date	Rating Agency	Long-Term IDR	Short-Term IDR	National Long-Term	National Short-Term	Outlook
Feb. 21 2019	Fitch Australia Pty Ltd.	BBB+	F2	AA-(tw)	F1+(tw)	stable

1.6 Conclusion

The Bank will strive to improve its profitability by exerting its advantages, living up to its philosophy of "seize the business opportunities of financial science and technology, continue to expand quality credit, expand the scale of wealth management, enhance investment operating income, implement AML mechanisms, balance north-south regional layouts, cultivate professional talents and fulfill corporate social responsibility".

Chairman

Chang, Yun-peng

President

Wang Jueifang



2.1 Date of Incorporation : Jan. 13, 1982

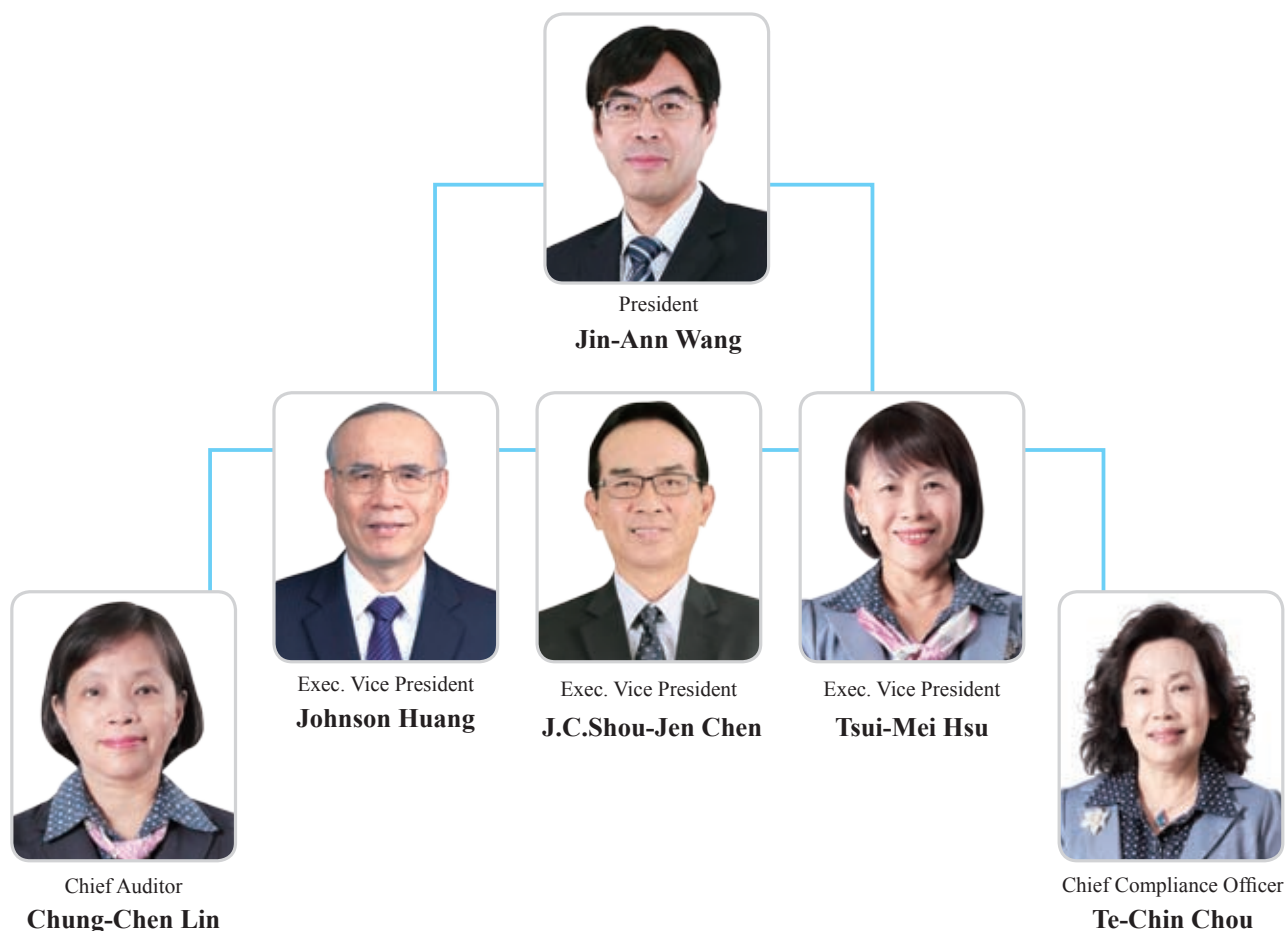
2.2 Company History

Formerly Known as “City Bank of Kaohsiung Co., Ltd.” and called “City Bank of Kaohsiung” for short, the Bank changed the Bank’s name to “Bank of Kaohsiung Co., Ltd.” on Jan. 1, 1994 and hereunder is abbreviated to “Bank of Kaohsiung” (BOK). In the beginning of the Bank’s establishment, the initial paid-in capital was NT\$ 450 million, 99.994% of which was put up by the Kaohsiung City Government. In order to positively improve the operating constitution, strengthen the financial transparency and raise the Bank’s competence, BOK stocks were listed on the TSE on May 18, 1998. The Bank was privatized on Sep. 27, 1999 and was upgraded as a national bank under the approval of the Minister of Finance on May 31, 2001. After several capital increases in the past 37 years and the privatization, the total paid-in capital has amounted to NTD10,403,431,060 to Mar. 2019.

2.3 The status of the following operation in 2018 to the end of March 2019:

- 2.3.1 Mergers and Acquisition of Banks, direct investment in affiliates and reorganization: None.
- 2.3.2 Under the category of special financial holding companies: None.
- 2.3.3 Where the directors and others are required to declare their equity holding pursuant to Article 25-3 of the Banking Act, their transactions or switching of shares in massive volume: None.
- 2.3.4 The effect of the change in the management, mode of operation, or significant change in the content of business on shareholders’ equity: None.

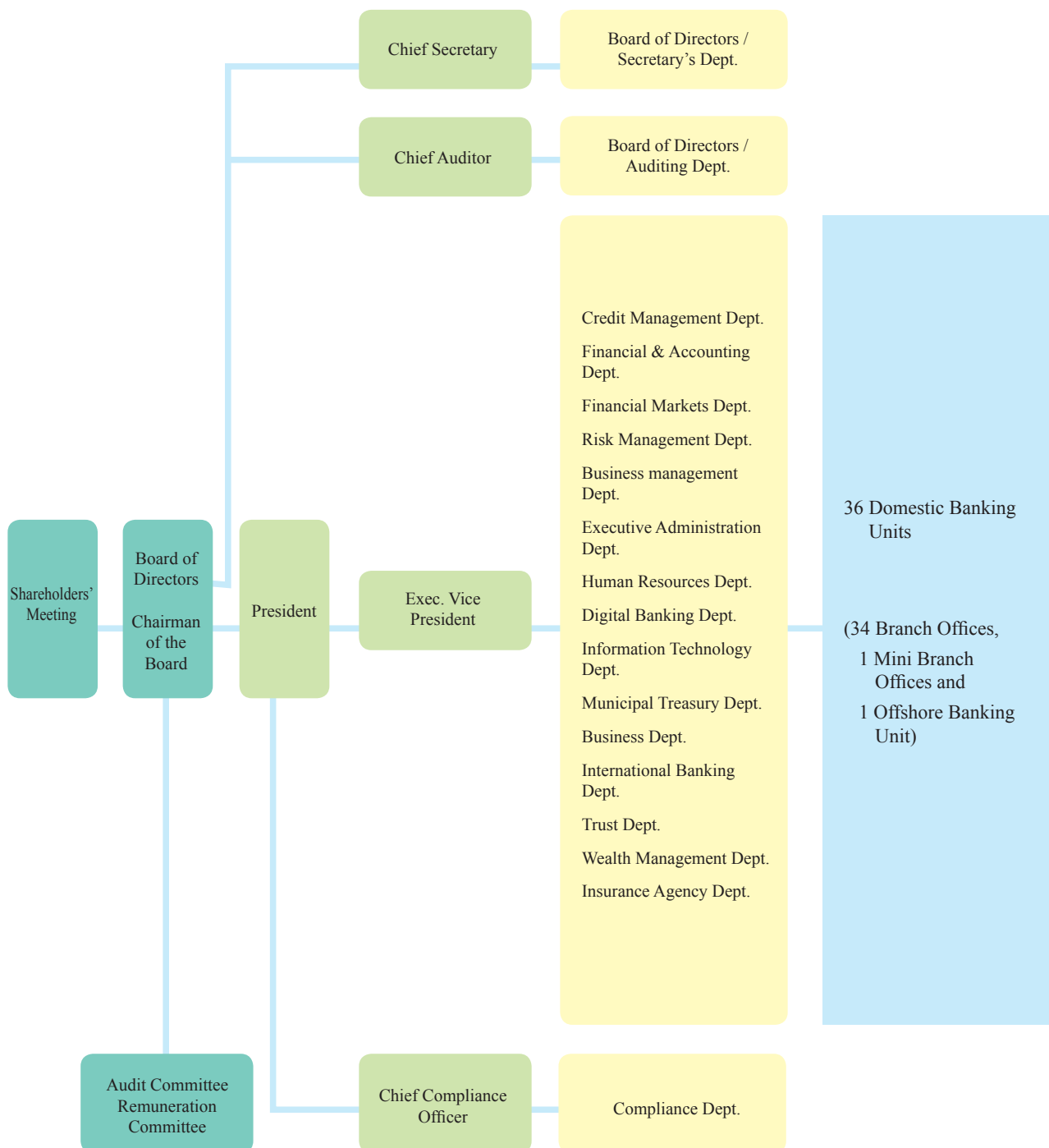
Under the leadership of board of directors and chairman of the board, chief operating team.



Note : Exec. Vice President Huang retired on March 1, 2019.

3.1 Organization

3.1.1 Organization Chart





3.1.2 Major Corporate Functions

- I. Credit Management Dept. :
Planning, promotion, review, credit investigation, management for loans, economic studies, appraisal of collateral, overdue loans reminder management and related business guidance and consulting.
- II. Financial & Accounting Dept. :
The management and planning of the accounting, statistics, budget and account settlement, and treasury operations of the Bank as a whole. Assignment and management of business goals, and evaluation of business performance.
- III. Financial Markets Dept. :
Capital management; undertake, purchase & sell of marketable securities underwriting; purchase & sell of government bonds; brokerages, purchase & sell, certification and underwriting of short-term notes; acting as the agent for raising government bonds and handling related repayment; planning and execution of investment; foreign exchange transaction ; and management of assets and liabilities.
- IV. Risk Management Dept. :
Planning and supervision of the Bank's risk control.
- V. Business management Dept. :
Comprehensive planning, research, development, and innovation of operations; application and establishment of branches, relocation planning, issuance and replacement of licenses and certificates for managers; credit ratings, annual reports, business report compilations; planning, development, and management of deposits and remittances; management, planning, and supervision of domestic business channeling, front-desk, lottery tickets and the agency services of related business.
- VI. Compliance Dept. :
The planning, management, execution, review, oversight, and training of compliance affairs; administrative affairs in legal fields, such as the review of contracts and documents, legal consultation, provision of legal opinion, and litigation processing. The Design and Enforcement of Anti-Money Laundering and Counting Terrorism Financing.
- VII. Executive Administration Dept. :
General administration, cash payment and receiving, fixing and maintenance, property, documentation, seals, public relations, bill protection and security of branches, and other affairs irrelevant to financial business which are not managed by any unit of the head office.
- VIII. Human Resources Dept. :
Planning, assessment, management, business trips and leaves, training, wages, welfare, and retirement pay and pension of human resources and labor-capital relations.
- IX. Digital Banking Dept. :
Planning, marketing, management, and optimization of digital banking products, credit cards and other payment instruments; installation and management of automation service equipment, CRM management and utilization, social media operation, evaluation and application of new digital businesses.
- X. Information Technology Dept. :
Planning, design and operation management of automation business and information security.
- XI. Municipal Treasury Dept. :
Design and promotion for business of Municipal and City treasuries. Custody of City-owned securities. Guidance and supervision on branch business.
- XII. Business Dept. :
Various types of deposits, loans, foreign exchange, domestic remittance, guarantee, cash payment and receiving, capital management, and other financial service.
- XIII. International Banking Dept. :
Managing, Planning and promotion of foreign remittance, deposits, loans, guarantee, cash payment and receiving and other foreign exchange business.
- XIV. Trust Dept. :
Handling trust business approved by the central competent authority with planning, promotion, and execution of subsidiary business.
- XV. Wealth Management Dept. :
Programming, promotion and execution of wealth management business, management and appraisal of wealth management personnel.
- XVI. Insurance Agency Dept
BOK was approved by the competent authority for engagement in planning, promotion, execution, and management of insurance agency businesses.

3.2 Directors and Management Team

3.2.1 The 13th Directors

I. Information on Directors.

Mar. 31, 2019

Title	Nationality or registered	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouse or within two degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C.	Yun-Peng Chang (Representative of Kaohsiung City Government)	Male	2017/06/22	2020/06/21	2017/06/22	432,657,702	43.13	448,666,036	43.13	0	0	0	0	Director & President, Hua Nan Financial Holdings Co., Ltd., Managing Director & President, Hua Nan Commercial Bank, Bachelor of Business Administration, National Taiwan University	Chairman, Bank of Kaohsiung, Director, Waterland Securities Co., Ltd., Taiwan Finance Corporation Co., Ltd.	None	None	None
Independent Director and Managing Director	R.O.C.	Wen-Yuan Lin	Male	2017/06/22	2020/06/21	2008/06/19	0	0	0	0	0	0	0	0	Chairman, Eastern Broadcasting Co., Ltd., Overseas Investment & Development Corp. and Janssen Styrene Monomer Co., Ltd., Rich Horizon International Touch Media Group, Director, United Renewable Energy Co., Ltd., Daily Polymer Corp., NSouth Kosan Co., Ltd., and Gloria Material Technology Corp.	Chairman, Eastern Broadcasting Co., Ltd., Overseas Investment & Development Corp. and Janssen Styrene Monomer Co., Ltd., Rich Horizon International Touch Media Group, Director, United Renewable Energy Co., Ltd., Daily Polymer Corp., NSouth Kosan Co., Ltd., and Gloria Material Technology Corp.	None	None	None
Managing Director	R.O.C.	Liang-Chien Lee (Representative of Kaohsiung City Government)	Male	2019/01/31	2020/06/21	2019/01/22	448,666,036	43.13	448,666,036	43.13	0	0	0	0	Director of Finance Department, I-Shou University, Independent Director of Ma Kuang Healthcare Group Pte. Ltd., Committee Director and Chairman of the Remuneration Committee, SciVision Biotech Inc., PhD, Management, National Cheng Kung University.	Director General Finance Bureau Kaohsiung City Government	None	None	None
Managing Director	R.O.C.	Ho-Chung Fu (Representative of Kaohsiung City Government)	Male	2019/01/31	2020/06/21	2019/01/22	448,666,036	43.13	448,666,036	43.13	0	0	0	0	Independent Director of CSBC Corporation, Taiwan, Executive Director of Human Automation Intelligence and Robotics Association, PhD, Materials Research Institute, National Sun Yat-sen University.	Director of Economic Development Bureau, Kaohsiung City Government.	None	None	None
Independent Director	R.O.C.	Mei-Yueh Ho	Female	2017/06/22	2020/06/21	2008/06/19	0	0	0	0	0	0	0	0	The Administrative Committee of the Executive Yuan and Council for Economic Planning and Development, Bachelor of Agricultural Chemistry, National Taiwan University	Independent Director, KINPO Electronics Inc., AU Optonics Corp., ASE Technology Holding Co., Ltd.	None	None	None
Independent Director	R.O.C.	Tzen-Ping Su	Male	2017/06/22	2020/06/21	2011/06/16	0	0	0	0	0	0	0	0	Chairman, Central News Agency, CNA, Master of National Economics, University of Frankfurt, Germany	Chairman, The Foundation for Excellent Journalism Award, Director, Mainfarm trading Co., Chia Tai Enterprise Co., LTD, Shareholder, Queen's Entertainment Co., LTD.	None	None	None
Director	R.O.C.	Francis Lee (Representative of Kaohsiung City Government)	Male	2019/01/22	2020/06/21	2019/01/22	448,666,036	43.13	448,666,036	43.13	0	0	0	0	Chairman of the Republic of China Industrial and Commercial Construction Research Association, PhD, Economic Law, Peking University.	Manager and Director of Master Card International Travel Service Co., Ltd., Chairman of NKFLUST Angel Investment Co., Ltd., Director of Peking University Practice Education Co., Ltd., Director of Orange Creative Technology Co., Ltd.	None	None	None
Director	R.O.C.	Wei-Pi Tsai (Representative of Kaohsiung City Government)	Male	2019/01/22	2020/06/21	2019/01/22	448,666,036	43.13	448,666,036	43.13	0	0	0	0	Deputy General Manager of Dengying Industrial Co., Ltd., Senior graduate.	Deputy Chairman of the Kaohsiung City Federation of Trade Unions	None	None	None
Director	R.O.C.	Tsung-Kun Lee (Representative of Kaohsiung City Government)	Male	2017/06/22	2020/06/21	2014/06/19	432,657,702	43.13	448,666,036	43.13	0	0	0	0	Executive director, Bank of Kaohsiung Corporate Union Lunghua Junior College of Technology	Executive director, Bank of Kaohsiung Corporate Union	None	None	None
Director	R.O.C.	Chung-Hsin Liu (Representative of Jin Her Enterprise Co., Ltd.)	Male	2017/06/22	2020/06/21	2011/06/16	92,170,604	9.19	99,164,444	9.53	0	0	0	0	Deputy Director General Finance Bureau, Kaohsiung City Government, Bank Insurance Section, International Business College	—	None	None	None
Director	R.O.C.	Richard Lee (Representative of Jin Her Enterprise Co., Ltd.)	Male	2017/06/22	2020/06/21	2011/06/16	92,170,604	9.19	99,164,444	9.53	0	0	0	0	Arbitrator, The Arbitration Association of The Republic of China, Master of Mainland China Studies National Sun Yat-sen University	Chairman, Chu Long Bao Industry Co., Ltd.; Director, Taiwan Styrene Monomer Co., Supervisor, Senao International Co., Ltd.; Partner Attorney, Yuan Chen Law Office; Independent Director, Taiwan Tea Corp.	None	None	None
Director	R.O.C.	Wayne Tseng (Representative of Jin Her Enterprise Co., Ltd.)	Male	2017/06/22	2020/06/21	2017/06/22	92,170,604	9.19	99,164,444	9.53	0	0	0	0	Director, Deloitte Taiwan, Executive Master of Business Administration, National Cheng Kung University	Independent Director, Wei Shih Steel Industrial Co., Ltd., Independent Director, Huiyulan Development Co., Ltd.	None	None	None
Director	R.O.C.	Hsiung-P Chen (Representative of Bank of Kaohsiung Corporate Union)	Male	2017/06/22	2020/06/21	2005/03/15	973,726	0.1	1,673,303	0.16	0	0	0	0	Executive director, Bank of Kaohsiung Corporate Union MBA, Northern Arizona University	Assistant Vice President, Trust Dept., Bank of Kaohsiung	None	None	None

Note: 1. Above "Other Position" data is base on Mar. 31, 2019.

2. The names of juridical person shareholders, please refer to next page "Major Shareholders of the institutional."

3. Managing Director Li - Ming Hsu retired on Apr. 20, 2018; Director Chien-Isai Chao retired on Dec. 31, 2018; Managing Director Yi-Der Lee, Mei-Miao Tseg and Che Shie retired on Jan. 21, 2019.



II. Major shareholders of the institutional shareholders.

Name of institutional shareholders	Major shareholders of the institutional shareholders
Kaohsiung City Government	Belong to government agencies.
Bank of Kaohsiung Corporate Union	Belong to corporation aggregate.
Jinn Her Enterprise Co., Ltd.	Yong-Yu Tsai (21.45%), His-Hui Chen (18.51%), Hsiung-Tien Tsai (12.66%), Jung-Tai Tsai (10.32%), Sung-Han Tsai (9.88%), Deteng Investment Co., Ltd. (6.63%) Zhenjiang Investment Co., Ltd. (6.63%), Xietai Asset Management Co., Ltd. (6.63%), Xiu-Xiang Chang Tsai (6.2%), Yong-Quan Tsai (0.64%), Jia Ling Tsai (0.44%)

III. Major shareholders of the major shareholders that are juridical persons.

Name of institutional shareholders	Major shareholders of the institutional shareholders
Deteng Investment Co., Ltd.	Yong-Yu Tsai (90%), His-Hui Chen (10%),
Zhenjiang Investment Co., Ltd.	Hsiung-Tien Tsai (90%), His-Hui Chen (10%),
Xietai Asset Management Co., Ltd.	Jung-Tai Tsai (90%), His-Hui Chen (10%),

IV. Professional qualifications and independence analysis of directors.

Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience	Independence Criteria (Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
		1	2	3	4	5	6	7	8	9	10	
Yun-Peng Chang	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the business Needs of the Bank in a public or private Junior college, College or university	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Wen-Yuan Lin		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Liang-Chien Lee	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Ho-Chung Fu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Mei-Yueh Ho		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Tzen-Ping Su		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Francis Lee		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Wei-Pi Tsai		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Tsung-kun Lee		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chung-Hsin Liu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Richard Lee	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Wayne Tseng		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Jueifang P. Chen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

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

1. Not an employee of the Bank or any of its affiliates.
2. Not a director or supervisor of the Bank affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary in which the Bank holds, directly or indirectly, more the 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding share of the Bank or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding share of the Bank or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Bank.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof. But, exclude the members of the remuneration committee, they exercise Article 7 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Bank.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

V. The objectives for fortifying the function of the Board since the current year and the recent years and the evaluation of the accomplishments are specified below:

The members of the Board of BOK are experts in different professional disciplines with a wealth of experience and solid background. BOK set Article 33 of its "Corporate Governance Best-Practice Principles" to bolster corporate governance, reinforce the organizational structure of the Board and vitalize its development. The amendment covered the "Policy on the Diversity of the Composition of Board Members". The content and the pursuit are specified below:

The members of the Board are generally in possession of the knowledge and skills required for their professed duties with the proper accomplishments. For achieving the goal of corporate governance for BOK, the Board shall possess the following:

- (i) The ability to make judgments on the operation.
- (ii) The ability to conduct analysis accounting and financial affairs.
- (iii) The ability of corporate management.
- (iv) The ability of risk management.
- (v) The ability of crisis management.
- (vi) A wealth of knowledge of the industry.
- (vii) A broad view of the international market.
- (viii) Leadership.
- (ix) The capacity to make decisions.



The pursuit of the policy of diversity of the Board at BOK

Diversity of core business	Name	Expertise and experience/field of specialization						Background									
		Financial	Banking	Accounting	Securities	Insurance	Information	Iron and Steel	Commerce	Law	Finance	Accounting	Finance and banking	Agriculture	Mechanical engineering	Civil Engineering	Space Design
	Yun-Peng Chang	✓	✓		✓				✓		✓		✓				
	Wen-Yuan Lin		✓					✓	✓							✓	
	Liang-Chien Lee		✓								✓		✓				
	Ho-Chung Fu		✓					✓						✓			
	Mei-Yueh Ho		✓						✓				✓				
	Tzen-Ping Su		✓						✓								
	Francis Lee		✓						✓	✓							
	Wei-Pi Tsai		✓						✓					✓			
	Tsung-kun Lee		✓										✓				
	Chung-Hsin Liu		✓			✓					✓						
	Richard Lee		✓						✓	✓							
	Wayne Tseng		✓	✓								✓					
	Jueifang P. Chen		✓					✓					✓				

3.2.2 Management Team

Apr. 10, 2019

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	R.O.C.	Jin-Anm Wang	Male	2017.07.07	151,509	0.0146	0	0	0	0	Senior Vice President, General Manager and Deputy General Manager, Bank of Kaohsiung Bachelor of International Trade, Chinese Cultural University	None	None	None	None
Exec. Vice President	R.O.C.	Tsui-Mei Hsu	Female	2017.06.22	134,722	0.0129	0	0	0	0	Senior Vice President and Chief Secretary, Bank of Kaohsiung EMBA, National Sun Yat-sen University	None	None	None	None
Exec. Vice President and Senior Vice President, Financial Markets Dept.	R.O.C.	J.C. Shou-Jen Chen	Male	2019.04.10	193,780	0.0186	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Master of Business Administration, University of Pittsburgh, USA	None	None	None	None
Chief Auditor	R.O.C.	Chung-Chen Lin	Female	2011.01.18	65,333	0.0063	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Master of Business Economics, National Kaohsiung University of Applied Sciences	None	None	None	None
Consultant and Chief Secretary	R.O.C.	Mei-Ling Chen	Female	2017.09.01	94,406	0.0091	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Bachelor of Chinese Literature, National Chengchi University	None	None	None	None
Chief Compliance Officer and Senior Vice President, Compliance Dept.	R.O.C.	Te-Chin Chou	Female	2015.01.27	61,977	0.006	0	0	0	0	Assistant Vice President, Bank of Kaohsiung Bachelor of Law, National Chung Hsing University	None	None	None	None
Senior Vice President, Business Management Dept	R.O.C.	Yi-Chen Yu	Female	2018.03.01	51,086	0.0049	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
Senior Vice President, Financial & Accounting Dept.	R.O.C.	Chin-yu Hsueh	Female	2018.03.01	5,520	0.0005	0	0	0	0	Assistant Vice President, Bank of Kaohsiung Section of Accounting, Open Junior College.	None	None	None	None
Senior Vice President, Credit Management Dept.	R.O.C.	Jung-Tai Chang	Male	2018.03.01	55,586	0.0053	0	0	0	0	Deputy Senior Vice President and Deputy General Manager, Bank of Kaohsiung PhD. College of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
Senior Vice President, Digital Banking Dept.	R.O.C.	Yu-Chin Feng	Male	2017.04.17	26,380	0.0025	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Management, National Cheng Kung University	None	None	None	None
Senior Vice President, Human Resources Dept., and Executive Administration Dept.	R.O.C.	Shiu-Hui Liu	Female	2015.03.02	59,723	0.0057	0	0	0	0	General Manager, Bank of Kaohsiung Master of Business Economics, National Kaohsiung University of Applied Sciences	None	None	None	None
Senior Vice President, Risk Management Dept.	R.O.C.	Chiu-Mei Pan	Female	2019.02.12	66,634	0.0064	59,648	0.0057	0	0	Deputy Senior Vice President, Bank of Kaohsiung Master of Financial and Information, National Kaohsiung University of Applied Sciences	None	None	None	None



Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Senior Vice President, Information Technology Dept.	R.O.C.	I-Fen Chen	Female	2011.02.24	137,097	0.0132	0	0	0	0	Assistant Vice President, Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	None	None	None	None
General Manager, Municipal Treasury Dept.	R.O.C.	Chiu-Chin Huang	Female	2017.09.01	62,921	0.006	0	0	0	0	General Manager, Bank of Kaohsiung Master of Wealth and Taxation Management, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, International Banking Dept.	R.O.C.	Yu-Sheng Tsai	Male	2019.02.12	0	0	0	0	0	0	General Manager of the Philippines Sub-Bank of Yuanda Bank, Institute of International Business Management, Chinese Culture University.	None	None	None	None
General Manager, Trust Dept.	R.O.C.	Ching-Hui Lin	Female	2015.03.02	54,659	0.0053	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Law, Fu Jen Catholic University	None	None	None	None
General Manager, Wealth Management Dept. and Insurance Agency Dept.	R.O.C.	Yuan-Chin Shiang	Female	2018.01.23	116,113	0.0112	0	0	0	0	General Manager, Bank of Kaohsiung EMBA, National Sun Yat-sen University	None	None	None	None
General Manager, Business Dept.	R.O.C.	Ming-Hung Wu	Male	2018.03.01	81,296	0.0078	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung MBA, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Gangshan Benjhou Branch	R.O.C.	Chiu-Lan Hsu	Female	2018.03.01	17,203	0.0017	0	0	0	0	Deputy General Manager and General Manager, Bank of Kaohsiung Bachelor of International Trade, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Feng Shan Branch	R.O.C.	Ming-Ta Yang	Male	2017.03.01	50,110	0.0048	0	0	0	0	General Manager, Bank of Kaohsiung Section of Accounting and Statistics, Tachung business school	None	None	None	None
General Manager, Chen Chin Branch	R.O.C.	Shiow-Lien Su	Male	2019.02.12	118,824	0.0114	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Finance and Banking, Shih hien University	None	None	None	None
General Manager, Sun Min Branch	R.O.C.	Chi-Jen Lin	Male	2018.03.01	64,482	0.0062	0	0	0	0	General Manager, Bank of Kaohsiung Master of Money and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Tso Ying Branch	R.O.C.	Wen-Jung Huang	Male	2017.03.01	9,963	0.001	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Hsiao Kang Branch	R.O.C.	Hsien-Kuo Chen	Male	2015.05.01	61,485	0.0059	119,949	0.0115	0	0	General Manager, Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	None	General Manager	Li-Hwa Chen	Spouse
General Manager, Tao Yuan Branch	R.O.C.	Ting-Kuang Huang	Male	2018.03.01	0	0	0	0	0	0	Deputy General Manager and General Manager, Tachung Commercial Bank Bachelor of Cooperative Economics, Feng Chia University	None	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General Manager, Chien Chen Branch	R.O.C.	Li-Hwa Chen	Female	2017.09.01	119,949	0.0115	61,485	0.0059	0	0	General Manager, Bank of Kaohsiung Section of International Trade, Open Junior College	None	General Manager	Hsiao-Kuo Chen	Spouse
General Manager, Yu Chang Branch	R.O.C.	Wei-Min Wu	Male	2018.03.01	57,694	0.0055	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Wan Nei Branch	R.O.C.	Mei-Chu Chang	Female	2019.02.12	133	0	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Tourism, Ming Chuan University	None	None	None	None
General Manager, Pin Tung Branch	R.O.C.	Shu-Z. Chen	Female	2018.03.01	22,050	0.0021	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, Soochow University	None	None	None	None
General Manager, Kwei Lin Branch	R.O.C.	Chi-Feng Liou	Male	2019.02.12	0	0	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Section of Accounting, Open Junior College.	None	None	None	None
General Manager, Bei Tun Branch	R.O.C.	Hsi-Chieh Wu	Male	2018.01.10	0	0	0	0	0	0	General Manager, Shin Kong Bank EMBA Feng Chia University	None	None	None	None
General Manager, Nan Tze Branch	R.O.C.	Wei-Tzu Huang	Female	2018.03.01	55,483	0.0053	49,586	0.0048	0	0	Deputy General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Cheng Kung University	None	None	None	None
General Manager, Ku Shan Branch	R.O.C.	Hsiu-Yen Wu	Female	2018.03.01	20,227	0.0019	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Chien Kuo Branch	R.O.C.	Ying-Mien Hsu	Female	2017.03.01	42,985	0.0041	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Chiu Ju Branch	R.O.C.	Ming-Jing Sun	Male	2019.02.12	28,090	0.0027	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Finance, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Zhong Li Branch	R.O.C.	Chun-Wen Chen	Male	2017.05.22	0	0	0	0	0	0	General Manager, Taichung Commercial Bank Bachelor of Public Finance, National Cheng Chi University	None	None	None	None
General Manager, Tsao Yu Branch	R.O.C.	Wen-Hau Sher	Male	2018.03.01	59,706	0.0057	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Banciao Branch	R.O.C.	Chiung-Wen Chang	Female	2018.03.01	0	0	0	0	0	0	General Manager, Sunny Bank EMBA, Tamkang University	None	None	None	None
General Manager, Tai Nan Branch	R.O.C.	Tai-Lu Tu	Male	2017.03.01	15,926	0.0015	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Money and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None



Corporate Governance Report

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General Manager, San To Branch	R.O.C.	Huang-Fen Yen	Female	2018.03.01	49,024	0.0047	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	Director, Ochi Technology Co., Ltd.	None	None	None
General Manager, Da Fa Branch	R.O.C.	Tung-Feng Wu	Male	2017.03.01	51,436	0.0049	0	0	0	0	Deputy General Manager, Section of International Trade, Open Junior College	None	None	None	None
General Manager, Ta Chih Branch	R.O.C.	Don Huang	Male	2012.09.07	55,972	0.0054	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of International Trade, National Taiwan University	None	None	None	None
General Manager, Tai Chung Branch	R.O.C.	Hwa-Jen Lee	Male	2016.03.01	63,635	0.0061	0	0	0	0	Senior Vice President, Bank of Kaohsiung EMBA, National Cheng Kung University	None	None	None	None
General Manager, OBU Branch	R.O.C.	Ming-Huang Chung	Male	2018.08.01	0	0	0	0	0	0	Senior Manager, Corporate Finance Department, O-Bank MBA, Memphis University				
General Manager, Chi Chin Mini Branch	R.O.C.	Su-Mo Liang	Female	2018.01.03	71,611	0.0069	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Bachelor of accounting and statistics, Ming Chuan University	None	None	None	None
General Manager, Nan Kaohsiung Branch	R.O.C.	Pei-Fang Wang	Female	2018.03.01	45,021	0.0043	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Section of International Trade, Chinese Culture University	None	None	None	None
General Manager, Dali Branch	R.O.C.	Yu-Huey Tsao	Female	2015.03.02	61,901	0.006	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Finance, National Sun Yat-sen University	None	None	None	None
General Manager, Hsin Chu Branch	R.O.C.	Shi-Yen Huang	Male	2019.04.01	0	0	0	0	0	0	Senior Manager of Guanghua Branch of ESUN Bank MBA, Chung Yuan Christian University	None	None	None	None
General Manager, Shih Fu Branch	R.O.C.	Tung-Chiang Sung	Male	2017.04.01	53,155	0.0051	0	0	0	0	General Manager, Bank of Kaohsiung Master of Human Resource, Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Chung Ho Branch	R.O.C.	Shou-Cheng Yen	Male	2017.06.01	9,795	0.0009	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Bachelor of Accounting and Statistics, Takming University of Science and Technology	None	None	None	None
Consultant and General Manager, Taipei Branch	R.O.C.	Wen-Lung Ting	Male	2012.09.07	62,478	0.006	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Economics, Chinese Culture University	None	None	None	None
General Manager, Min Cheng Branch	R.O.C.	Hsien-Cheng Huang	Male	2019.02.12	173,179	0.0166	73,627	0.0071	0	0	General Manager, Bank of Kaohsiung Master of Money and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Pei Kaohsiung Branch	R.O.C.	Chia-Hung Chen	Male	2017.03.01	22,663	0.0022	24,718	0.0024	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Po Ai Branch	R.O.C.	Hui-Wen Chiu	Female	2016.03.01	31,525	0.003	0	0	0	0	Deputy General Manager, Bank of Kaohsiung EMBA, National Taiwan Normal University	None	None	None	None

Note: 1. Above "Other Position" data is base on Apr.9 2019. 2. Above "Shareholding" data is base on Apr.17.2019.

3.2.2 Chairman and general manager retiring from a bank or related company to return to the advisory information

Dec. 31, 2018

Title	Nationality	Name	Gender	Pre-retirement position		Date as consultant	Employment purpose	Division of powers and responsibilities	Remuneration	Remuneration as a percentage of net profit after tax
				Institution and title	Retirement date					
President	R.O.C.	Moan-Sheng Huang	Male	President of BOK	2017.06.01	2017.06.01~201805.31	Leveraging the business philosophy and experience of President Huang, he is employed as an honorary advisor to the Bank.	None	None	None

3.3 Remuneration of Directors, President Vice President and Consultant.

3.3.1 Remunerations of Directors (Independent Directors)

Unit : NT\$ Thousand in Jan. 1~dec. 31, 2018

Title	Name	Remuneration				Ratio of total remuneration (A+B+C+D) to net income (%)	Relevant remuneration received by directors who are also employees				Ratio of total compensation (A+B+C+D+E+F+G) to net income (%)		Compensation paid to directors from an invested company other than the company's subsidiary							
		Base Compensation (A)	Severance Pay (B)	Bonus to Directors (C)	Business expenses (D)		Salary, Bonuses and Allowances (E)	Severance Pay (F)		Bonus to Employee (G)										
								Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements		Cash	Companies in the financial statements	Stock				
Chairman	Yun-Peng Chang (Representative of Kaohsiung City Government)																			
Independent Director and Managing Director	Wen-Yuan Lin																			
Managing Director	Li-Ming Hsu (Representative of Kaohsiung City Government)																			
Managing Director	Chen-Cheng Chien (Representative of Kaohsiung City Government)																			
Managing Director	Mei-Miao Tseng (Representative of Kaohsiung City Government)																			
Independent Director	Mei-Yueh Ho																			
Independent Director	Tzen-Ping Su																			
Director	Che Shie (Representative of Kaohsiung City Government)																			
Director	Yi-Der Lee (Representative of Kaohsiung City Government)																			
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	13,049	Note 2	960	Note 2	5,461	Note 2	1,611	Note 2	4.4%	Note 2	3,474	Note 2	207	Note 2	68	Note 2	5.18%	Note 2	396
Director	Tsung-kun Lee (Representative of Kaohsiung City Government)																			
Director	Chung-Hsin Liu (Representative of Kaohsiung City Government)																			
Director	Richard Lee (Representative of Inn Her Enterprise Co., Ltd.)																			
Director	Wayne Tseng (Representative of Inn Her Enterprise Co., Ltd.)																			
Director	Jueiling P. Chen (Representative of Bank of Kaohsiung Corporate Union)																			
	Kaohsiung City Government																			
	Bank of Kaohsiung Corporate Union																			
	Inn Her Enterprise Co., Ltd.																			

Note : 1. The Bank provides included the rental fees of Chairman's Professional practice site, rental fees of business car and expenses of fuel and driver was offered total NT\$2,089 thousand.

2. The amount of "Companies in the financial statements" is identical to the amount in the cell for "BOK".



Range of Remunerations

Unit : NT\$ Thousand

Range of Remunerations	Name of Directors			
	Total of A+B+C+D		Total of A+B+C+D+E+F+G	
	BOK	Companies in the financial statements (I)	BOK	All investees (J)
under 2 million	Mei-Miao Tseg, Che Shie, Ruey-Tsang Lee, Li- Ming Hsu, Chen-Cheng Chien, Yi-Der, Lee, Chien-Tsai Chao, Jueifang P. Chen, Tsung-kun Lee, Chung-Hsin Liu, Richard Lee, Wayne Tseng Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.	Mei-Miao Tseg, Che Shie, Ruey-Tsang Lee, Li- Ming Hsu, Chen-Cheng Chien, Yi-Der, Lee, Chien-Tsai Chao, Jueifang P. Chen, Tsung-kun Lee, Chung-Hsin Liu, Richard Lee, Wayne Tseng Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.	Mei-Miao Tseg, Che Shie, Ruey-Tsang Lee, Li- Ming Hsu, Chen-Cheng Chien, Yi-Der, Lee, Chien-Tsai Chao, Tsung-kun Lee, Chung-Hsin Liu, Richard Lee, Wayne Tseng Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.	Mei-Miao Tseg, Che Shie, Ruey-Tsang Lee, Li- Ming Hsu, Chen-Cheng Chien, Yi-Der, Lee, Chien-Tsai Chao, Tsung-kun Lee, Chung-Hsin Liu, Richard Lee, Wayne Tseng Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.
2 million(included) ~ 5 million(uncluded)	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su Jueifang P. Chen,	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su Jueifang P. Chen,
5 million(included) ~ 10 million(uncluded)	Yun-Peng Chang, Kaohsiung City Government	Yun-Peng Chang, Kaohsiung City Government	Yun-Peng Chang, Kaohsiung City Government	Yun-Peng Chang, Kaohsiung City Government
10 million(included) ~ 15 million(uncluded)	—	—	—	—
15 million(included) ~ 30 million(uncluded)	—	—	—	—
30 million(included) ~ 50 million(uncluded)	—	—	—	—
50 million(included) ~ 100 million(uncluded)	—	—	—	—
over 100 million	—	—	—	—
Total	21,080	21,080	24,829	24,829

Item	Ratio of Remunerations of Directors to Net Income after Tax (%)		Remarks
	BOK	Companies in the consolidate financial statements	
FY			1. The Bank's policy for payment of compensation: pursuant to the company's management policy and Company Act, and subject to the resolution of the Bank's shareholders' meeting, compensation committee and board of directors. 2. The Bank's standard and portfolio for payment of compensation : (1) Monthly compensation to the Bank's directors: the maximum limit to be NT\$2,400,000 subject to the resolution of the shareholders' meeting. The standard governing monthly compensation per person shall be subject to the decision of the board of directors. Board of directors is authorized to approve according to the usual level of other banks. (2) Distribution of earnings: subject to "the Bank's Articles of Incorporation", but independent directors are not eligible for the distribution. (3) Bonus to directors who are also employees shall be subject to the "Rules Governing Distribution of Bonus to the Bank's Staff". 3. The Bank's procedure for fixing compensation: to be enforced upon approval of the shareholders' meeting, compensation committee and board of directors. 4. The Bank's payment of compensation for correlation between business performance and future risk: There is some correlation among the distribution of bonus to directors, bonus distributed to directors who are also employees, and the Bank's business performance. If a director is involved in illegal activities that caused damages to the Bank, aside from the Audit Committee exercise of supervision power and reporting the illegal act to the authorities, the Bank shall take necessary punitive action against the director according to applicable laws. 5. The proportion of total remuneration paid to directors in the current year was 5.18% after tax, decrease by 0.17% compared to FY2017. This was due to the increased in surplus in fiscal FY2018.
2018	5.18	5.18	
2017	5.35	5.35	
Comparison	(0.17) (Explanation 5)	(0.17) (Explanation 5)	

3.3.2 Compensation of President and Vice President

Unit : NT\$ Thousand in Jan. 1~Dec. 31, 2018

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Bonus of Employee (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
		BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK		Companies in the financial statements		BOK	Companies in the financial statements	
								Cash	Stock	Cash	Stock			
President	Jin-Ann Wang	12,211	Note 2	876	Note 2	5,009	Note 2	228	0	Note 2	Note 2	3.82%	Note 2	None
Exec.Vice President	Johnson Huang													
Exec. Vice President	Tsui-Mei Hsu													
Chief Auditor	Chung-Chen Lin													
Chief Compliance Officer	Te-Chin Chou													

Note : 1. The Bank provides included the rental fees of President's Professional practice site, rental fees of business car and expenses of fuel and driver was offered total NT\$1,500 thousand.

2. The amount of "Companies in the financial statements" is identical to the amount in the cell for "BOK".

Range of Remunerations

Unit: NT\$ Thousand in Jan. 1~Dec. 31, 2018

Range of Remunerations	Name of President and Vice Presidents	
	BOK	All investees (E)
under 2 million	—	—
2 million(included) ~ 5 million(uncluded)	Jin-Ann Wang, Johnson Huang, Tsui-Mei Hsu Chung-Chen Lin, Te-Chin Chou	Jin-Ann Wang, Johnson Huang, Tsui-Mei Hsu Chung-Chen Lin, Te-Chin Chou
5 million(included) ~ 10 million(uncluded)	—	—
10 million(included) ~ 15 million(uncluded)	—	—
15 million(included) ~ 30 million(uncluded)	—	—
30 million(included) ~ 50 million(uncluded)	—	—
50 million(included) ~ 100 million(uncluded)	—	—
over 100 million	—	—
Total	18,325	18,325

FY	Ratio of Remunerations of President & Exec. Vice President to Net Income after Tex (%)		Remarks
	BOK	Companies in the consolidate financial statements	
2018	3.82	3.82	1. The Bank's policies for payment of remuneration: The Bank's President is responsible for handling the Bank's general affairs pursuant to the orders of the Chairman and subject to the resolutions of the Board of Directors. The Vice President is responsible for assisting the President in handling the Bank's general affairs. The payment of their remuneration shall be subject to the resolutions of the Bank's Compensation Committee and Board or Directors. 2. The Bank's standard and portfolio for payment of remuneration: (1) Salary: The standard for monthly payment of salary to the President shall be subject to the resolutions of the Bank's Compensation Committee and Board or Directors. The monthly payment of salary to the Vice President, Auditor General, and Head Office's Chief Compliance Officer shall be subject to the Bank's "Directions Governing Employee's Position Ranking & Grading and Salary Payment" and "Table of Payment for Supervisory Differential Pay." (2) Bonus: It is conducted in accordance with the "Implementation Guidelines Governing the Business Bonus Approving and Issuing." (3) Employees' Compensation: It is conducted in accordance with "Rules Governing the Distribution of Employees' Compensation." 3. The procedure for the Bank to decide on remuneration: It will be implemented upon approval of the Bank's Compensation Committee and Board or Directors. 4. The correlation between the Bank's payment of remuneration/business performance and future risks: There is a correlation between the bonus and employees' compensation of the President, Vice President, Auditor General, and Head Office's Chief Compliance Officer and the Bank's business performance. In cases where the President, Vice President, Auditor General, and Head Office's Chief Compliance Officer are involved in illegal activities resulting in losses to the Bank, the Board of Directors shall, by resolution, discharge them from their positions and terminate the distribution of remuneration, and take necessary measures in accordance with relevant laws and regulations. 5. The total remuneration to the President and Vice President accounting for net income after tax this year was 3.82%, decrease by 0.17% compared to FY2017, which was due to the increased in surplus in fiscal 2018.
2017	3.99	3.99	
Comparison	(0.17) (Explanation 5)	(0.17) (Explanation 5)	



3.3.3 Employees' bonuses to Managers

Unit : NT\$ Thousand in Dec .31, 2018

Title		Name	Bonus — in Stock	Bonus — in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Jin-Ann Wang	0	1,991	1,991	0.42
	Exec. Vice President	Tsui-Mei Hsu				
	Exec. Vice President and Senior Vice President, Risk Management Dept.	Johnson Huang				
	Chief Auditor	Chung-Chen Lin				
	Chief Secretary	Mei-Ling Chen				
	Chief Compliance Officer	Te-Chin Chou				
	Senior Vice President	Yi-Chen Yu				
		Jung-Tai Chang				
		Chin-yu Hsueh				
		Shiu-Hui Liu				
		J.C. Shou-Jen Chen				
		I-Fen Chen				
		Yu-Chin Feng				
	General Manager	Chiu-Chin Huang				
		Ying-Chung Lin				
		Ching-Hui Lin				
		Yuan-Chin Shiang				
		Ming-Huang Chung				
		Ming-Hung Wu				
		Chiu-Lan Hsu				
		Ming-Ta Yang				
		Ching-Tsan Chen				
		Chi-Jen Lin				
		Wen-Jung Huang				
		Hsien-Kuo Chen				
		Ting-Kuang Huang				
		Li-Hwa Chen				
		Wei-Min Wu				
		Shiow-Lien Su				
		Shu-Z. Chen				
		Mei-Chu Chang				
		His-Chieh Wu				
		Wei-Tiu Huang				
		Hsiu-Yen Wu				
		Ying-Mien Hsu				
		Hsien-Cheng Huang				
		Chun-Wen Chen				
		Wen-Hau Sher				
		Chiung-Wen Chang				
		Tai-Lu Tu				
		Hueng-Fen Yen				
		Tung-Feng Wu				
		Don Huang				
		Hwa-Jen Lee				
		Su-Mo Liang				
		Pei-Fang Wang				
		Yu-Huey Tsao				
		Chuan-Pin Kao				
		Tung-Chiang Sung				
		Shou-Cheng Yen				
		Wen-Lung Ting				
		Ming-Jung Sun				
		Chia-Hung Chen				
		Hui-Wen Chiu				

Note: Employees' bouns amount listed, the Department of the FY 2019 by the board of managers of the proposed allotment of employee compensation amount.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

A total of 9 meetings of the board of directors were held in FY 2018. Director attendance was as follows:

Title	Name	Attendance in Person	By proxy	Attendance ratio (%)	Remarks
Chairman	Yun-Peng Chang (Representative of Kaohsiung City Government)	9	0	100	
Independent Director and Managing Director	Wen-Yuan Lin	8	1	89	
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	1	0	50	Retired Managing Director in Apr. 20, 2018. 2 times attendance in 2018.
Managing Director	Chen-Cheng Chien (Representative of Kaohsiung City Government)	4	1	67	Retired in Nov.5, 2018. 6 times attendance in 2018.
Managing Director	Yi-Der, Lee (Representative of Kaohsiung City Government)	5	3	56	Director elected as Managing Director in May 10, 2018.
Managing Director	Mei-Miao Tseg (Representative of Kaohsiung City Government)	2	0	100	New Director in Nov.12, 2018. Director elected as Managing Director in Nov. 22, 2018. 2 times attendance in 2018.
Independent Director	Mei-Yueh Ho	6	3	67	
Independent Director	Tzen-Ping Su	9	0	100	
Director	Che Shie (Representative of Kaohsiung City Government)	2	0	29	New Director in May 2, 2018. 7 times attendance in 2018.
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	7	2	78	
Director	Tsung-kun Lee (Representative of Kaohsiung City Government)	9	0	100	
Director	Chung-Hsin Liu (Representative of Jinn Her Enterprise Co., Ltd.)	9	0	100	
Director	Richard Lee (Representative of Jinn Her Enterprise Co., Ltd.)	9	0	100	
Director	Wayne Tseng (Representative of Jinn Her Enterprise Co., Ltd.)	9	0	100	
Director	Jueifang P. Chen (Representative of Bank of Kaohsiung Corporate Union)	9	0	100	

Other Mandatory Provisions:

If any of the following is applicable to the operation of the Board:

I. Anything inscribed in Article 14-3 of the Securities and Exchange Act:

Board of Directors	Content of the motions in the session of the Board	Opinions of Independent Directors	Action of the Company in response to the opinions of the Independent Directors and resolutions
8th board of directors' meeting of 13th term (2018.02.23)	1. Discuss the restrictions on the suspension of the Bank Chairman Yun-Peng Chang.	None	Action in response to the opinions : None. Resolution : There were 13 Directors in the session. Chairman Yun-Peng Chang and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion of ratification with common consent.
	2. Discussion The Bank increased the rent of the second floor of the second floor of the service center of the Gangshan Benjhou Industrial Park in Kaohsiung City (No.17, Bengong Road, Gangshan District, Kaohsiung City) as the business place of the Bank's " Gangshan Benjhou Branch ".	None	Action in response to the opinions : None. Resolution : There were 13 Directors in the session. Chairman Yun-Peng Chang, Managing Director Li-Ming Hsu, Managing Director Chen-Cheng Chien, Director Yi-Der Lee, Director Chien-Tsai Chao, and Directors Tsung-kun Lee are stakeholders, and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion with common consent.



Board of Directors	Content of the motions in the session of the Board	Opinions of Independent Directors	Action of the Company in response to the opinions of the Independent Directors and resolutions
	3. To enhance the effectiveness of internal control operations, we will discuss the Bank's "Main Points of Implementation of Three Lines of Internal Control" .	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
9th board of directors' meeting of 13th term (2018.03.22)	1. Supplementary information on the adjustment of the Internal Audit Plan of BOK in 2018.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	2. BOK established the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" in response to the amendment to the "Money Laundering Control Act" and "Important Notice to Banks in AML/CFT" , and the enactment of the "Counter-Terrorism Financing Act" .	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	3. In order to enhance the competitiveness of wages and encourage the morale of employees, we will discuss the salary increase of 1% of the employees, and at the same time, we will work together to amend the "BOK Deputy General Manager's salary scale for the following employees" .	None	Action in response to the opinions : None. Resolution : There were 11 Directors in the session. Chairman Yun-Peng Chang and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion of ratification with common consent.
11th board of directors' meeting of 13th term (2018.06.20)	1. Ratify and assign Shi-fang Wang on behalf of the Company as the seventh legal representative of the transfer business "Kaohsiung Rapid Transit Corporation" .	None	Action in response to the opinions : None. Resolution : There were 11 Directors in the session. Chairman Yun-Peng Chang, Managing Director Chen-Cheng Chien, Director Chien-Tsai Chao, and Directors Tsung-kun Lee are stakeholders, and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion with mutual consent.
	2. Amend Articles 6 and 7 of the Bank's "Code of Practice for the Implementation of the Legal Enforcement System".	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
12th board of directors' meeting of 13th term (2018.08.16)	1. To ratify some of the provisions of the revised "Compensation System for Securities Dealers" and the "Complimentary Rules for Internal Audit of Securities Dealers" .	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	2. To consider the tender for the loan to the various agencies, transfer investments and affiliated units of Kaohsiung City in 2018, and authorize the bidding quota of the Business Dept. and the bidding rate.	None	Action in response to the opinions : None. Resolution : There were 12 Directors in the session. Chairman Yun-Peng Chang, Director Che Shie, Director Chien-Tsai Chao, and Directors Tsung-kun Lee are stakeholders, and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion with common consent.
	3. To revise the business of the sub-sector, to cope with the "Procedures for the Prevention of Money Laundering and Anti-Terrorism" and the "Assessment of Money Laundering and Risks and the Relevant Prevention and Control Plans" of the relevant associations of The Bankers Association of the Republic of China and other relevant associations. Discuss and revise the Bank's various business "Models for Preventing Money Laundering and Fighting against Terrorism" and "Assessing the Risks of Money Laundering and Risks and Establishing Control Plans and Procedures".	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	4. Amendment to the "Procedures for Derivative Trade" of BOK in part.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	5. Amendment to the "Regulations Governing Derivative Trade of BOK at International Banking Branches" in part.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	6. Discuss the original nuclear loan Wei Chih Steel Industry Co., Ltd., apply for the change of repayment method and the credit of the collateral.	None	Action in response to the opinions : None. Resolution : There were 12 Directors in the session. Director Wayne Tseng and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion with common consent.

Board of Directors	Content of the motions in the session of the Board	Opinions of Independent Directors	Action of the Company in response to the opinions of the Independent Directors and resolutions
14th board of directors' meeting of 13th term (2018.11.08)	1. Review the continued appointment of "Crowe Horwath (TW) CPAs" in 2019 for the "financial and tax audit and certification" of BOK in 2019, and the fees incurred from the "Special Audit on the Internal Control System" in 2018.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	2. Discussion The Bank renewed and leased the municipally owned houses under the administration of the Kaohsiung City Administration and International Office, the San Min District Office of Kaohsiung City and the Hsiao Kang District Office as the business premises of the Shih Fu Branch, the Wan Nei Branch and the Hsiao Kang Branch.	None	Action in response to the opinions : None. Resolution : There were 11 Directors in the session. Chairman Yun-Peng Chang, Managing Director Yi-Der Lee, Director Chien-Tsai Chao, and Directors Tsung-kun Lee are stakeholders, and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion with common consent.
	3. Discussion and revision of the Bank's "Consultation of Insurance Agents' Prevention of Money Laundering and Counter-terrorism" and its appendix "Suspected Money Laundering or Terrorism Trading Situation", "Participating in Insurance Agent Business Assessment of Money Laundering and Risk of Risk of Terrorism" Cum to set up prevention plans and procedures."	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
15th board of directors' meeting of 13th term (2018.12.20)	1. The design of the 2018 Internal Audit Plan.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	2. Review the internal audit plan on the operation of securities dealing undertaken by BOK in 2018.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	3. Amendment to the "Procedures for Derivative Trade" of BOK in part.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	4. Amendment to the "Measures for Risk Management of Derivative Trade" of BOK in part.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.
	5. Amendment to the "Guidelines for the Implementation of the Internal Control Auditing System and the Soliciting and Handling System of the Insurance Agent Business" of BOK in part.	None	Action in response to the opinions : None. Resolution : Directors in the session acted in favor of the motion of ratification with common consent.

II. In addition to the aforementioned issues, other issues related to the resolution of the Board which are expressed objections or reservations by the Independent Directors on record or in written declarations: None.

III. The actions of directors in preventing a "conflict of interest":

(i) 8th board of directors' meeting of 13th term (2018.02.23)

A. Discuss the restrictions on the suspension of the Bank Chairman Yun-Peng Chang. Acting Chairman Yun-Peng Chang and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion of ratification with common consent.

B. Discussion The Bank increased the rent of the second floor of the service center of the Gangshan Benjhou Industrial Park in Kaohsiung City (No.17, Bengong Road, Gangshan District, Kaohsiung City) as the business place of the Bank's "Gangshan Benjhou Branch". Related Party Legal Representative of the Kaohsiung City Government, Acting Chairman Yun-Peng Chang, Managing Director Li-Ming Hsu, Managing Director Chen-Cheng Chien, Director Yi-Der Lee, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion.

(ii) 9th board of directors' meeting of 13th term (2018.03.22)

In order to enhance the competitiveness of wages and encourage the morale of employees, we will discuss the salary increase of 1% of the employees, and at the same time, we will work together to amend the "BOK Deputy General Manager's salary scale for the following employees". Acting Chairman Yun-Peng Chang



and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion of ratification with common consent.

(iii) 11th board of directors' meeting of 13th term (2018.06.20)

Ratify and assign Shi-fang Wang on behalf of the Company as the seventh legal representative of the transfer business "Kaohsiung Rapid Transit Corporation". Related Party Legal Representative of the Kaohsiung City Government, Acting Chairman Yun-Peng Chang, Managing Director Chen-Cheng Chien, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion.

(iv) 12th board of directors' meeting of 13th term (2018.08.16)

- A. To consider the tender for the loan to the various agencies, transfer investments and affiliated units of Kaohsiung City in 2018, and authorize the bidding quota of the Business Dept. and the bidding rate. Related Party Legal Representative of the Kaohsiung City Government, Acting Chairman Yun-Peng Chang, Director Che Shie, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion.
- B. Discuss the original nuclear loan Wei Chih Steel Industry Co., Ltd., apply for the change of repayment method and the credit of the collateral. Acting Director Wayne Tseng and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion with common consent.

(v) 14th board of directors' meeting of 13th term (2018.11.08)

Discussion The Bank renewed and leased the municipally owned houses under the administration of the Kaohsiung City Administration and International Office, the San Min District Office of Kaohsiung City and the Hsiao Kang District Office as the business premises of the Shih Fu Branch, the Wan Nei Branch and the Hsiao Kang Branch. Related Party Legal Representative of the Kaohsiung City Government, Acting Chairman Yun-Peng Chang, Managing Director Yi-Der Lee, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion.

IV. Progress assessment of the 2018 agenda – empowerment of the Board of Directors:

All members of the Bank's Board of Directors execute business with care and loyalty, and perform their duty according to the relevant laws and the Bank's articles of incorporation to protect the Bank's and shareholders' interests and rights.

3.4.2 Independent Director attendance

○ : Attendance in Person ; △ : By proxy ; * : Absence

2018	8th of 13th term (2018.02.23)	9th of 13th term (2018.03.22)	10th of 13th term (2018.05.10)	11th of 13th term (2018.06.20)	12th of 13th term (2018.08.16)	13th of 13th term (2018.10.11)	14th of 13th term (2018.11.08)	Temporary 2th of 13th term (2018.11.22)	15th of 13th term (2018.12.20)
Wen-Yuan Lin	○	○	○	○	△	○	○	○	○
Mei-Yueh Ho	○	○	△	○	○	○	△	△	○
Tzen-Ping Su	○	○	○	○	○	○	○	○	○

3.4.3 Audit Committee operating scenario

The annual meeting of the Audit Committee in 2018, the Audit Committee attended the scenario as follows:

Title	Name	Attendance in Person	By proxy	Attendance ratio (%)	Remarks
Audit Committee	Mei-Yueh Ho	6	0	100	
Audit Committee	Wen-Yuan Lin	2	4	33	
Audit Committee	Tzen-Ping Su	6	0	100	

Other Mandatory Provisions:

If any of the following is applicable to the operation of the Audit Committee:

I. Anything inscribed in Article 14-5 of the Securities and Exchange Act, and resolutions not approved by the audit committee but were approved by more than two thirds of all Audit Committee

Board of Directors	Content of the Motions in the session of the Board	Anything inscribed in Article 14-5 of the Securities and Exchange Act	Resolutions not approved by the audit committee but were approved by more than two thirds of all Audit Committee
8th board of directors' meeting of 13th term (2018.02.23)	1. Discuss the restrictions on the suspension of the Bank Chairman Yun-Peng Chang.	✓	None
	2. Discussion The Bank increased the rent of the second floor of the second floor of the service center of the Gangshan Benjhou Industrial Park in Kaohsiung City (No.17, Bengong Road, Gangshan District, Kaohsiung City) as the business place of the Bank's " Gangshan Benjhou Branch ".	✓	None
	3. To enhance the effectiveness of internal control operations, we will discuss the Bank's "Main Points of Implementation of Three Lines of Internal Control" .	✓	None
	The resolution of the Audit Committee (2018.02.23): The members of the Audit Committee acted in favor of the motion as stated with common consent. Action of the Company in response to the opinions of the Audit Committee: ● Motion No. 1 was passed by all Directors in common consent except Chairman Yun-Peng Chang and recused themselves to avoid conflict of interest. The rest of the Directors voted in favor of the motion of ratification with common consent. ● Motion No. 2 was passed by all Directors in common consent except Chairman Yun-Peng Chang, Managing Director Li-Ming Hsu, Managing Director Chen-Cheng Chien, Director Yi-Der Lee, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion.		
9th board of directors' meeting of 13th term (2018.03.22)	1. Attached are the consolidated and separate financial statements of 2017 (2017.1.1 to 2017.12.31) and the Auditor' s Report issued by Crowe Horwath (TW) CPAs.	✓	None
	2. The proposal for the distribution of earnings for BOK in 2017 (2017.1.1 to 2017.12.31).	✓	None
	3. Amendment to the contents of Article 21 and Article 25 of the "Articles of Incorporation" of BOK.	✓	None
	4. Supplementary information on the adjustment of the Internal Audit Plan in 2018.	✓	None
	5. Review the "Declaration of the Internal Control System" and the "Assessment Report of BOK on the Implementation of the Internal Control System" in 2017.	✓	None
	6. BOK established the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" in response to the amendment to the "Money Laundering Control Act" and "Important Notice to Banks in AML/CFT", and the enactment of the "Counter-Terrorism Financing Act" .	✓	None
	The resolution of the Audit Committee (2018.03.12): The members of the Audit Committee acted in favor of the motion as stated with common consent. Action of the Company in response to the opinions of the Audit Committee: Directors in the session acted in favor of the motion of ratification with common consent.		
11th board of directors' meeting of 13th term (2018.06.20)	1. Ratify and assign Shi-fang Wang on behalf of the Company as the seventh legal representative of the transfer business "Kaohsiung Rapid Transit Corporation" .	✓	None
	2. Amend Articles 6 and 7 of the Bank's "Code of Practice for the Implementation of the Legal Enforcement System".	✓	None
	The resolution of the Audit Committee (2018.06.07) : The members of the Audit Committee acted in favor of the motion as stated with common consent. Action of the Company in response to the opinions of the Audit Committee: ● Motion No. 1 was passed by all Directors in common consent except Chairman Yun-Peng Chang, Managing Director Chen-Cheng Chien, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion. ● Motion No. 2 was passed by all Directors in the session acted in favor of the motion of ratification with common consent.		



Board of Directors	Content of the Motions in the session of the Board	Anything inscribed in Article 14-5 of the Securities and Exchange Act	Resolutions not approved by the audit committee but were approved by more than two thirds of all Audit Committee
12th board of directors' meeting of 13th term (2018.08.16)	1. To ratify some of the provisions of the revised "Compensation System for Securities Dealers" and the "Complimentary Rules for Internal Audit of Securities Dealers" .	✓	None
	2. To consider the tender for the loan to the various agencies, transfer investments and affiliated units of Kaohsiung City in 2018, and authorize the bidding quota of the Business Dept. and the bidding rate.	✓	None
	3. To revise the business of the sub-sector, to cope with the "Procedures for the Prevention of Money Laundering and Anti-Terrorism" and the "Assessment of Money Laundering and Risks and the Relevant Prevention and Control Plans" of the relevant associations of The Bankers Association of the Republic of China and other relevant associations. Discuss and revise the Bank's various business "Models for Preventing Money Laundering and Fighting against Terrorism" and "Assessing the Risks of Money Laundering and Risks and Establishing Control Plans and Procedures".	✓	None
	4. Amendment to the "Procedures for Derivative Trade" of BOK in part.	✓	None
	5. Amendment to the "Regulations Governing Derivative Trade of BOK at International Banking Branches" in part.	✓	None
	6. Discuss the original nuclear loan Wei Chih Steel Industry Co., Ltd., apply for the change of repayment method and the credit of the collateral.	✓	None
	The resolution of the Audit Committee (2018.08.06) : The members of the Audit Committee acted in favor of the motion as stated with common consent. Action of the Company in response to the opinions of the Audit Committee: ● Motion No. 2 was passed by all Directors in common consent except Chairman Yun-Peng Chang, Director Che Shie, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion. ● Motion No. 6 was passed by all Directors in common consent except Director Wayne Tseng avoided participation in the discussion.		
14th board of directors' meeting of 13th term (2018.11.08)	1. Review the continued appointment of "Crowe Horwath (TW) CPAs" in 2019 for the "financial and tax audit and certification" of BOK in 2019, and the fees incurred from the "Special Audit on the Internal Control System" in 2018.	✓	None
	2. Discussion The Bank renewed and leased the municipally owned houses under the administration of the Kaohsiung City Administration and International Office, the San Min District Office of Kaohsiung City and the Hsiao Kang District Office as the business premises of the Shih Fu Branch, the Wan Nei Branch and the Hsiao Kang Branch.	✓	None
	3. Discussion and revision of the Bank's "Consultation of Insurance Agents' Prevention of Money Laundering and Counter-terrorism" and its appendix "Suspected Money Laundering or Terrorism Trading Situation", "Participating in Insurance Agent Business Assessment of Money Laundering and Risk of Risk of Terrorism" Cum to set up prevention plans and procedures."	✓	None
	The resolution of the Audit Committee (2018.10.24) : The members of the Audit Committee acted in favor of the motion as stated with common consent. Action of the Company in response to the opinions of the Audit Committee: ● Motion No. 1 and No. 3 were passed by all Directors in the session acted in favor of the motion of ratification with common consent. ● Motion No. 2 was passed by all Directors in common consent except Chairman Yun-Peng Chang, Managing Director Yi-Der Lee, Director Chien-Tsai Chao, and Directors Tsung-kun Lee avoided participation in the discussion.		

Board of Directors	Content of the Motions in the session of the Board	Anything inscribed in Article 14-5 of the Securities and Exchange Act	Resolutions not approved by the audit committee but were approved by more than two thirds of all Audit Committee
15th board of directors' meeting of 13th term (2018.12.20)	1. The design of the 2018 Internal Audit Plan.	✓	None
	2. Review the internal audit plan on the operation of securities dealing undertaken by BOK in 2018.	✓	None
	3. Newly set up the Bank's "Code of Integrity Code".	✓	None
	4. Amendment to the "Procedures for Derivative Trade" of BOK in part.	✓	None
	5. Amendment to the "Measures for Risk Management of Derivative Trade" of BOK in part.	✓	None
	6. Amendment to the "Guidelines for the Implementation of the Internal Control Auditing System and the Soliciting and Handling System of the Insurance Agent Business" of BOK in part.	✓	None
	The resolution of the Audit Committee (2018.12.06) : The members of the Audit Committee acted in favor of the motion as stated with common consent. Action of the Company in response to the opinions of the Audit Committee: Directors in the session acted in favor of the motion of ratification with common consent.		

II. The effort of audit committee in preventing a "conflict of interest":

No proposal concerning the interests of independent directors in this year.

III. The communication between independent directors and internal audit supervisors and CPAs who serve as external auditors:

- Operation reports of internal auditing are periodically submitted to the Audit Committee for discussion, and internal audit supervisors all participate in the meeting.
- When financial reports are submitted to the Audit Committee, CPAs who serve as external auditors are invited to the meeting and required to respond to the questions made by independent directors.

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

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

Item	Operation			The Difference from Corporate Governance Best Practice Principles for Banking Industry and Reason
	Yes	No	Summary Description	
A. Equity Structure and Shareholder Rights				
1. Did the bank expressly provide internal operation procedures that process the recommendations from, questions from, and litigations with shareholders and implement these rules according to procedures?	✓		The bank has installed hot lines and e-mail boxes exclusively for shareholders' suggestions and resolutions.	No Deviation
2. Is the bank in touch with major shareholders who own actual controlling interests of the bank and the ultimate entity with controlling interest?	✓		The major shareholder of the Bank is Kaohsiung City Government, holding 43.13% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank.	No Deviation
3. Did the bank create and enforce the risk control mechanisms and the firewall between itself and affiliated corporations?	✓		The bank controls its affiliated enterprises in accordance with the guidelines governing the Bank's supervision of subsidiaries.	No Deviation



Item	Operation			The Difference from Corporate Governance Best Practice Principles for Banking Industry and Reason
	Yes	No	Summary Description	
B. Organization and Responsibilities of the Board of Directors				
1. Aside from creating the Remuneration Committee and the Audit Committee as required by law, did the bank create other functional committees voluntarily?		✓	The bank didn't create other functional committees voluntarily.	The bank didn't create other functional committees voluntarily.
2. Did the bank review the independence of the CPAs that perform the audit function on a regular basis?	✓		1. Assessments: The bank engaged Crowe Horwath CPAs as auditor in 2018. The CPAs and auditor of the firm do not act as a director, supervisor, or employee of the Bank; nor have they own, directly or indirectly, more than 1% of the Bank's outstanding share capital or become one of the Bank's top ten natural person shareholders. The auditor's firm issued a declaration of independence. 2. Frequency of assessment: The assessment of independence is reported to the Board of Directors once a year.	No Deviation
C. If the bank is listed on the TWSE or Gre Tai Securities Market, is there a designated full-time (part-time) body or personnel responsible for corporate governance and related matters (including but not limiting to providing information to the Directors and Supervisors related to the performance of assigned duties, issues related to the Board or the Shareholders' Meeting as required by law, company registration and registration for change, preparation of minutes of Board meetings and Shareholders' meetings on record)?	✓		The Secretariat of the Board is the designated body responsible for corporate governance and related matters.	—
D. Did the Communication Channels with the Related Parties (including but not limiting to shareholders, employees, and customers)?	✓		The bank has appointed a spokesperson, installed toll-free hot line and email box to provide suggestion and explanation about questions to the Bank's customers and shareholders. Meanwhile, the Bank also holds the community wealth management symposiums and provides the in-house staff with the information about the corporate governance irregularly, and discloses the financial information in MOPS.	No Deviation
E. Disclosure of Information				
1. Did establishment of a website where information on financial operations and corporate governance is disclosed?	✓		The bank has established a website (www.bok.com.tw) where information on financial operations and corporate governance of the Bank is disclosed.	No Deviation
2. Did the Bank have other methods for information disclosure (such as the installation of website in English language, appointment of designated personnel for the collection and disclosure of the Bank, proper implementation of the system of spokesman, loading the video covering the entire process of institutional investors conference to the website)?	✓		Users can click and log in to the English website of the Bank through the URL listed above. The Bank has appointed a spokesperson. The spokesperson is Hsu Tsui-Mei, who also serves as a Exec.vice president. The Bank has also designated a unit dedicated to serving as a point of contact for the Market Observation Post System. Business units in charge of all services perform the gathering and disclosure of information as required.	No Deviation
F. Are There Other Important Information to understand Corporate Governance Practice of the Bank (including but not limiting to the rights of employees, employee concern, investor relation, stakeholders' rights and privileges, the continuing education of the Directors and Supervisors, risk management policy and performance of risk assessment actions of customer policy, taking liability insurance for the Directors and Supervisors of the Bank, donation to political parties, stakeholders, and charity groups)?				
1. With investor related: The major shareholder of the Bank is Kaohsiung City Government, holding 43.13% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank.				
2. Employee rights: Please refer to page 71 "5.6.1 IV Fulfillment of Employee Rights".				
3. Right of related parties: Please refer to page 30 "D. Did the communication channels of the Bank and the related parties".				
4. Training record of directors in 2018: Please refer to page 37~38 Appendix Training record of directors in 2018.				
5. Execution of risk management policies and risk measuring standards: Please refer to page 181~190 "This Bank's risk management systems".				
6. Execution of customers' policies: In order to improve the services provided to customers and communication with customers, we have a toll free hot line, and customer service window setup exclusively for credit, financial derivatives and negotiation mechanisms for consumers' financial debt.				
7. Purchase of liability insurance by the Bank for directors and managers: The Bank has purchased "Directors & Officers Liability Insurance" from Shinkong Fire & Marine Insurance Co., Ltd. On Jun. 2, 2018.				
8. The Bank made a donation to political parties or stakeholders or a group of public welfare: Please refer to page 69~70 "Social Responsibility and Moral Behavior of the Bank", In addition, the Bank has never made a donation to political parties or stakeholders.				
G. Specify the status of corrective action taken in accordance with the corporate governance evaluation result disclosed by the Corporate Governance Center of Taiwan Stock Exchange Corporation covering the most recent year. If corrective action has not been accomplished, specify the priority of improvement and measures for this purpose: we have disclosed the corporate governance evaluation result of the Bank in 2018, and were ranked among top 21%~35% of the group of TWSE-listed companies. In response to internationalization, the Bank will strengthen the English translation of financial statements and handbook for the annual meeting of shareholder in the coming year.				

3.4.6 Duty and Implementation of the Remuneration Committee

I . Members of the Remuneration Committee

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

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

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

II . Duties of the Remuneration Committee

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

III . Implementation of the Remuneration Committee

- (i) Members of the Remuneration Committee: 3 persons.
- (ii) Term: From Jun. 22, 2017 to Jun.21, 2020. A total of 4 meetings (A) of the Remuneration Committee were held in FY 2018, members attendance was as follows:

Title	Name	Attendance in Person (B)	By proxy	Attendance ratio (%) (B/A)	Remarks
Convener	Tzen-Ping Su	4	0	100%	
member	Wen-Yuan Lin	2	2	50%	
member	Mei-Yueh Ho	4	0	100%	

Other matters that should be recorded:

1. If the Board of Directors refuses to accept or modify the suggestions of the compensation committee, the meeting date, term, agenda content, resolution and the bank's treatment of the compensation committee's opinion should be clearly stated (for example, if the Board of Directors approved a compensation structure that is better than the Compensation Committee's recommendation, the circumstance and the reason of the difference should be clearly stated): The Board takes the advice of the Remuneration Committee and approves the Committee's proposal on remuneration distribution.
2. If the members have opposite opinion or reservations against the resolution of the Compensation Committee and such opposing opinion or reservations have been recorded or documented, the meeting date, term, agenda content, the opinion of all members, of the Compensation Committee, and the treatment of the members' opinion should be clearly stated: None.



3.4.7 The Bank Performing its Social Responsibility

Item	Operation			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	Summary Description	
A. Implementing and promoting corporate governance				
1. Did the bank codify corporate social responsibility policies or regulations and review their implementation?	✓		1.The Bank prepares a CSR report annually starting from 2015 to disclose specific measures and the implementation result of corporate social responsibility. 2.BOK passed the “BOK Corporate Social Responsibility Best Practice Principles” by the Board in a session held on 2016.12.22.	No Deviation
2. Did the bank provide the courses of social responsibility training on a regular basis?	✓		In order to implement corporate ethics and promotional matters, relevant courses are held annually (such as business rules and professional ethics seminars) and directors and employees are sent irregularly to participate in relevant professional courses held by professional training institutions.	No Deviation
3. Did the bank create a business unit that is dedicated to promoting corporate social responsibility or a (non-dedicated) business unit that is partially dedicated to this function, and did the Board authorize top management to process this matter and report the outcome to the Board?	✓		The Bank has created a business unit dedicated to promoting CSR. The Executive Administration Dept. is responsible for coordinating and planning matters related to CSR and reporting to the board of directors in regular basis.	No Deviation
4. Did the bank codify a reasonable remuneration policy and integrate the performance review of employees with corporate social responsibility policies, and create clear and effective reward and discipline regulations?	✓		1. The Bank set by managers and other remuneration defined as: (1) Attract outstanding professional elite, expand the depth and breadth of operations, strengthen corporate governance cum enhance corporate image. (2) Just stay positive, to maintain internal harmony, strengthen external competitiveness. (3) Incentive to develop their potential, and actively create surpluses in pursuit of equitable remuneration shareholders. 2. The behavior of the implementation of corporate governance, performance appraisal laid down for employees’ annual performance appraisal service points “that follow. 3. The behavior of the implementation of reward and punishment, matters have incentives for employees’ employees incentives and disincentives “that specification.	No Deviation
B. Develop Sustainable Environment				
1. Did the bank condition devoted to enhancing the effective use of all resources and making use of recycled materials that pose the least impact to the environment?	✓		The Bank is committed to improving the efficiency in energy usage, including: 1. Saving electricity: The Bank uses T5 or LED lighting fixtures that are energy-efficient, Principles are all LED lamps, sets the air conditioning one or two degrees higher than required, and maintains equipment and cleans filters on a regular basis, Add air circulation fan to improve cooling room efficiency. After business hours, employees turn off power of office equipment or unplug them.	No Deviation

Item	Operation			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	Summary Description	
			2. Saving water: The Bank uses human-sensing urinals to adjust the amount of flush. 3. Saving fuel: While dispatching corporate cars, the company arranges car pools by principle. The Bank encourages walking or taking public transportation on business trips. 4. Saving paper: The Bank promotes the use of electronic bills. The Bank uses web-based bulletin boards to make pronouncements. The Bank reduces the amount of photocopies. Internal documents are passed on from one person to another, rather than photocopied. Office papers are double-sided as much as possible. Internal document transmission is done with reusable envelopes and Manila paper bags. 5. After the toner powder in the toner cartridges of photocopiers and the printers is exhausted, The Bank sends the empty toner cartridges back to their vendors and specifies the use of environment-friendly toner powder.	
2. Did the bank condition established appropriate environment management system according to industry characteristics?	✓		1. The Bank enacted “Management Directions for Wenhua Building of Bank of Kaohsiung” to protect the public safety and environmental hygiene. 2. The Bank is in the finance and banking sector and is not a business entailing high risk in pollution. Accordingly, ISO 14001 is not applicable.	No Deviation
3. Did the bank condition watch out for impact that weather changes have on operational activities and sets forth strategies in regards to the Bank’s energy saving, carbon reduction and greenhouse gas volume reduction?	✓		1. Old lighting fixtures shall be replaced by T5 or LED energy-saving lighting fixtures and light tubes, LED power-saving luminaires are used under the condition of permission. 2. Implementing recycling diligently and shipping waste papers and outdated publications to paper plant for recycling and reusing on a regular basis. 3. Promoting a paperless policy. All businesses and forms are conducted electronically. Annual reduction of A4 paper. 4. The air-conditioner is turned on at 08:40 every day and turned off when getting off the work or at 17:10 at the latest. Old and power consuming air-conditioners are replaced by new energy-saving air conditioners in regular basis.	No Deviation
C. Protection of Social Wellness				
1. Does the bank provide applicable policies and procedures based on labor laws and international human rights conventions?	✓		The Bank has create a business unit that is dedicated to promoting CSR. The Executive Administration Dept. is responsible for coordinating and planning matters related to CSR.	No Deviation
2. Has the bank created mechanisms and channels for employees to complain and process the complaints properly?	✓		The Bank employees and complaints, in addition to setting "Sexual Harassment Prevention and complaint processing elements" proper sexual harassment at the outside, and an electronic communication (complaint) mailbox to accept employee complaints events.	No Deviation
3. Does the bank create a safe and healthy work environment for employees and offer regular safety and health education to employees?	✓		The Bank provides a working environment with employee safety and health in accordance with the “Occupational Safety and Health Act”. Also, in accordance with the “Regulations for Labor Health Protection”, starting from 2002, The Bank pays for employee health examinations. The examination items and terms are both more favorable than the provisions under the “Labor Health Protection Regulation”.	No Deviation



Item	Operation			Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
	Yes	No	Summary Description	
4. Has the bank created a mechanism for regular communication with employees and notify employees of operational changes that could cause significant impact to employees in reasonable ways?	✓		For the establishment of the communication mechanism between itself and the employees, The Bank has a mail box for the opinions of the employees, and holds labor-management meetings.	No Deviation
5. Has the bank created effective career competence development training plans for employees?	✓		The Bank on the basis of annual training plan, regular and irregular handling of the line within a year, foreign study and training courses to enrich their own employees can learn and career skills.	No Deviation
6. Has the bank created policies that protect the interest of consumers and complaint procedures in terms of R&D, procurement, operation, and service processes?	✓		1. The Bank annually on the operation of the system of consumer protection and enforcement effectiveness, self-vetting evaluation of the whole bank, and according to the evaluation results to improve the review. 2. Execution of customers’ policies :In order to improve the services provided to customers and communication with customers, we have a toll free hot line, and customer service window setup exclusively for credit, financial derivatives and negotiation mechanisms for consumers’ financial debt.	No Deviation
7. Does the bank comply with applicable laws and international standards on the marketing and marking of products and services?	✓		The Bank on the marketing activities of products and services, has developed "in advertising, and sales promotion activities to attract business management approach", documents the business and marketing activities, both through the business should comply with the responsible authority in charge of the law, the head office of Justice the competent regulatory compliance and total body competent to comply with the relevant laws and regulations, Fang was released to use	No Deviation
8. Before the bank conduct business with suppliers, has the bank evaluated whether its suppliers have records of adverse impacts on the environment and society?	✓		The Bank conducts an assessment of its commercial activities, including supplier qualifications and adverse records, and has a “BOK Supplier Corporate Social Responsibility Management Policy”. The supplier management requirements are in line with corporate social responsibility conditions and are also announced. In the "Stakeholders-Suppliers" section of the Bank's corporate website.	No Deviation
9. Does the contract between the bank and its major supplier contain the clause that the bank may terminate or revoke the contract at any time when the supplier is involved in acts that are against corporate social responsibility policies and also cause significant impact to the environment and the society?	✓		1. The Bank to fulfill corporate social responsibility of business attitude, not the cause of the environmental and social impact of the major suppliers to trade. 2. The Bank has the “BOK Supplier Corporate Social Responsibility Management Policy”. Since July 1, 2018, the supplier or partner has entered into a purchase contract or cooperation contract with the Bank, and the lease of the leased real estate contracted by the Bank. The management policy shall be incorporated into the contract or attached as a contract. If there is a violation, the Bank may terminate or terminate the contract at any time by written notice and announce it on the “Stakeholder-Supplier” section of the Bank's corporate website.	No Deviation

Item	Operation			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No	Summary Description	
D. Reinforce Information Revelation Does the bank disclose information on corporate social responsibility with relevance and reliability on its website or the Market Observation Post System?	✓		Disclose information related to enterprise social responsibility in the annual report.	No Deviation
E. A Bank that has set forth its own corporate social responsibility (CSR) in accordance to "CSR Best Practice Principles for TWSE/GTSM Listed Companies", please describe any difference between real execution and principles that have been set forth: The Bank has implemented corporate social responsibility through the implementation of corporate governance, the development of a sustainable environment, the maintenance of social welfare, the enhancement of corporate responsibility disclosure and the implementation of corporate social responsibility practices.				
F. Other important information beneficial for understanding the operation of business' social responsibility: Please refer to page 69 "5.3 Social Responsibility and Moral Behavior of the Bank".				
G. If the Bank's products or reports on corporate social responsibility have passed the verification standard set by related certification organization, further clarification shall be provided: None.				

3.4.8 The Bank Practice and measures for its Ethical Corporate Management

Item	Operation			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary Description	
A. Codifying ethical corporate management best practice principles and plans				
1. Does the bank expressly provide the policies and measures on ethical management in its regulations and documents to external parties, and the commitment on implementing operational policies by the Board and the management?	✓		The Bank adhered to the "Integrity" as the highest guiding principle and the policy of integrity management. On Dec. 20, 2018, the 15th meeting of the 13th Board of Directors passed the "BOK Code of Integrity".	No Deviation
2. Does the bank provide plans that prevent unethical acts and expressly provide operational procedures, code of conducts, disciplinary actions against infractions, and complaint regulations, in all such plans?	✓		In order to prevent dishonesty, the Bank has also established a "BOK Ethical Code of Conduct", and has established supporting management rules and handling manuals for each business, and implemented relevant assessments and rewards and punishments.	No Deviation
3. Does the bank take preventive actions against high-risk and unethical business activities defined in Article 7 Paragraph 2 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", or other measures against unethical activities in other business fields?	✓		The Bank except for charitable donations or sponsorships and other matters by setting "donation job points" think outside the norms and regulations on the business research mechanism stipulated higher risk of bad faith conduct preventive tool, in order to implement the principles of integrity management.	No Deviation
B. Implementing ethical operations				
1. Does the bank evaluation the record of ethics of its transaction counterparties and expressly provide ethical conduct clauses in contracts signed with its transaction counterparties?	✓		The Bank conducts its business in transparency and fairness, and has no business with parties lacking integrity. The integrity clause shall be explicitly stated in the agreement in the future to prevent any transaction with parties that have records on integrity violation.	No Deviation
2. Does the bank have a dedicated (non-dedicated) business unit that promotes ethical business practices and reports to the Board, and does this unit regularly report its operation to the Board regularly?	✓		1. The Board of Directors of the Bank is responsible for promoting the integrity of the company, is responsible for the revision of the company's code of integrity, and reports to the board of directors every year. 2. The Bank Audit Office in accordance with regulations for the business checks, and Lack of improvement and implementation of internal control situation Chen regular board of directors to oversee the business operations following the implementation of the principle of integrity.	No Deviation



Item	Operation			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and reasons
	Yes	No	Summary Description	
3. Has the bank drafted policies that prevent conflict of interest, provide proper channels of complaints, and implement them?	✓		The Bank has established a policy for the prevention of conflicts of interest in the Company's Code of Integrity and the rules of the Board of Directors, and implemented them.	No Deviation
4. Has the bank created an effective accounting system and internal control regulations for implementing ethical business practice, and has the internal audit unit performed regular audits, or has the bank outsourced internal audit to CPAs?	✓		1. The Bank has established the relevant accounting system and internal control system for substantiating the principles of integrity management; also, has it timely reviewed and amended for the compliance of all departments in order to prevent malpractice from occurring. 2. The Bank's Internal Audit Unit has the implementation of the related accounting system and internal control system audited in accordance with regulations. There was not any major nonconformity but minor nonconformity found in the investigation in 2018. The Bank had follow-up and reviewed the corrective action performed for the said minor nonconformities, and reported to the Board of Directors on a regular basis in order to continue to oversee the company's business activities in conformity with the principles of business integrity.	No Deviation
5. Does the bank provide internal and external training courses regarding ethical business practices on a regular basis?	✓		The Bank regularly participate in organized study trip outside agency business integrity or corporate social responsibility and other related study or training staff from higher order. It is planned to conduct relevant internal education and training courses in the future to strengthen the compliance awareness of all personnel of the Bank.	No Deviation
C. The operation of the reporting regulations of the bank				
1. Has the bank created substantive reporting and reward regulations, established useful channels of reporting, and appointed exclusive personnel to deal with reported individuals?	✓		In addition to the mailbox of the head office, the Bank also added several types of pipelines, such as the 0450@mail.bok.com.tw and the probation line. The audit department of the Bank, the compliance department and the human resources department respectively Accepting reports and appeals that violate integrity management. For practitioners who violate or report misconduct, they will be rewarded and punished according to the “Practitioner's Reward and Punishment Measures”.	No Deviation
2. Has the bank designated standard operation procedures and confidentiality mechanisms for the investigation of reported incidents?	✓		On the 16th meeting of the 13th Board of Directors on Aug. 16, 2018, the Bank passed the “BOK Reporting Case Handling Standards Operation Method”, which stated that the relevant personnel handling the report cases were also obliged to keep confidential.	No Deviation
3. Has the bank taken measures that protect the whistleblower from improper treatment?	✓		According to Article 5 of the “BOK Reporting Case Handling Standards Operation Method”, the Bank shall not improperly dispose of the prosecutor's dismissal or dismissal due to his report, as a measure to protect the prosecutor.	No Deviation
D. Improving information disclosure				
Does the bank disclose the content of its ethical business practice and the result of its implementation information on its website or the Market Observation Post System?	✓		The official website of the Bank and the public information observatory disclosed the relevant contents of the Bank's Code of Integrity.	No Deviation
E. A Bank that has set forth its own Ethical Corporate Management Best Practice Principles in accordance to “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies”, please describe any difference between real execution and principles that have been set forth: No Deviation				
F. Other material information helpful to the understanding of the bank's ethical corporate management best practice principles (for example, the revision of said principles codified by the bank.): None.				

- 3.4.9 Corporate governance guidelines and related bylaws: The Bank stipulated Corporate Governance Guidelines on November 2015. Please visit <https://www.bok.com.tw/bokgov> for relevant contents.
- 3.4.10 Other material information useful to the understanding of corporate governance and its implementation: Please refer to page 29, 3.4.5 The Differences between the Corporate Governance Practice of the Bank and the “Guidelines for Bank Corporate Governance”, F. Did important Information of Corporate Governance Practice of the Bank.

Appendix: Training record of directors in 2018

Period	Title	Name	Training Record		
			Class Name	Hours	Unit in Charge
Q1	Chairman	Chen-Cheng Chien	"Exploring Machine Learning - Discovering the Keys of Financial AI" High-Level Breakfast.	2.5	Taiwan Academy of Banking and Finance
			Corporate Governance Workshop - Discussing corporate response strategies from the trend of international anti-tax avoidance and anti-money laundering.	3	Taiwan Securities Association
			IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Managing Director	Chen-Cheng Chien	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Independent Director and Managing Director	Wen-Yuan Lin	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Independent Director	Mei-Yueh Ho	Company Law Latest Revision Series.	3	Corporate Operation Association
			IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Independent Director	Tzen-Ping Su	Corporate Governance Professional Training Seminar - Key check items and countermeasures that the board should understand.	3	Taiwan Corporate Governance Association
			IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Director	Richard Lee	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Director	Chung-Hsin Liu	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Director	Wayne Tseng	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Director	Chien-Tsai Chao	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Director	Jueifang P. Chen	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
	Director	Tsung-kun Lee	IFRS16 Rental Course.	1	Crowe Horwath (TW) CPAs
Q2	Chairman	Chen-Cheng Chien	2018 Annual Defense Insider Promotion Conference.	2	Taiwan Stock Exchange
			Corporate Governance Workshop - Equity transfer and tax planning practice for directors and supervisors.	3	Taiwan Securities Association
			Information Security Education and Training Supervisor (Kaohsiung Class).	3	Bank of Kaohsiung
			The 246th "Communication Memorial Lecture".	2	Chinese National Association of Industry and Commerce, Taiwan
	Director	Richard Lee	Corporate Governance Workshop - How companies use big data analytics to improve operational performance.	3	Taiwan Securities Association
	Director	Jueifang P. Chen	Corporate Governance Workshop - How companies use big data analytics to improve operational performance.	3	Taiwan Securities Association
			On-the-job training course for the trust business staff (the second step of the Kaohsiung class).	6	Trust Association of R.O.C.
			The 990th trust industry management staff is on the job.	12	Taiwan Academy of Banking and Finance
			Corporate Governance Professional Training Lecture - How the Supervisor supervises the company to conduct fraud detection and establishment of a whistle mechanism and strengthen corporate governance.	3	Taiwan Corporate Governance Association



Corporate Governance Report

Period	Title	Name	Training Record		
			Class Name	Hours	Unit in Charge
Q3	Chairman	Yun-Peng Chang	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Independent Director	Mei-Yueh Ho	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Independent Director	Tzen-Ping Su	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
			The last line of defense for corporate governance - director and supervisor liability insurance.	3	Taiwan Corporate Governance Association
			Independent Directors and Functional Committees Operational Practices - Directors and Supervisors (including Independent) Practice Advanced Seminar.	3	Securities & Futures Institute
	Director	Chien-Tsai Chao	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Director	Richard Lee	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Director	Chung-Hsin Liu	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Director	Wayne Tseng	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Director	Che Shie	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
	Director	Jueifang P. Chen	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
			2018 internal self-checking training course.	7.5	Bank of Kaohsiung
	Director	Tsung-kun Lee	The relationship between CRS and anti-avoidance provisions.	1	Crowe Horwath (TW) CPAs
Q4	Chairman	Yun-Peng Chang	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Managing Director	Yi-Der Lee	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Independent Director and Managing Director	Wen-Yuan Lin	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
			Directors and Supervisors (including independent) Practice Advanced Seminar - The latest corporate law revision trends to see the impact of corporate governance, internal control and directors' supervisory responsibilities.	3	Securities & Futures Institute
			Directors and supervisors (including independent) practice advanced seminar - the company's management rights competition behavior norms and practical case explanation.	3	Securities & Futures Institute
	Independent Director	Mei-Yueh Ho	Directors and Supervisors (including independent) Practice Advanced Seminar - Non-financial background How the Board of Supervisors reviews financial reports.	3	Securities & Futures Institute
			Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Independent Director	Tzen-Ping Su	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Director	Richard Lee	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Director	Chung-Hsin Liu	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Director	Wayne Tseng	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Director	Chien-Tsai Chao	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
	Director	Jueifang P. Chen	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung
			Major Business Acts and Internal Regulations in 2018 Follow the Workshop (Kaohsiung Class).	6	Bank of Kaohsiung
			The decree follows the competent in-service workshop.	15	Taiwan Academy of Banking and Finance
	Director	Tsung-kun Lee	Banks face threats and weaknesses in money laundering and risk of terrorism and future response workshops.	2	Bank of Kaohsiung

3.4.11 Implementation Status of the Internal Control System

I . Declaration Enforcement of the Internal Control System.

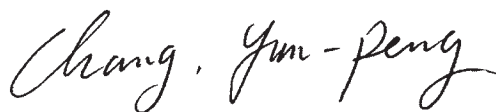
Bank of Kaohsiung
Declaration Enforcement of the Internal Control System
Attn : Financial Supervisory Commission

March. 21, 2019

- A. We, the Undersigned, hereby on behalf of Bank of Kaohsiung Co., Ltd. declared that during the period beginning Jan. 1, 2018 until Dec. 31, 2018, we did faithfully build the internal control systems and enforce risk control in accordance with “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”. Further through detached and independent Audit Department, we conducted audit with audit reports duly submitted to the Board of Directors and Audit Committees on a periodic basis.
- B. We evaluated the effectiveness of its Internal Control System in accordance with the Guidelines for the Establishment of the Internal Control System by Public Companies (the Guidelines) set forth by the Securities and Futures Commission of the Financial Supervisory Commission.
- C. Third, the business part of the insurance agent concurrently
- (A) The company judges the effectiveness of the internal control system in design and enforcement in accordance with the “Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies” (hereinafter referred to as “the Regulation”). The Regulation is instituted for judging the effectiveness of the design and enforcement of an internal control system. There are five components of effective internal control as specified in the Regulation, namely, 1. Control environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring. Each of these elements in turn contains certain audit items, and shall be referred to in the Regulation for details.
- (B) The company has adopted the aforementioned internal control system for internal audits on the effectiveness of the design and enforcement of the internal control system.
- (C) Based on the aforementioned audit findings, the company holds that it has reasonably preserved the achievement of the aforementioned goals within the aforementioned period of internal control, including the effectiveness and efficiency in operation, reliability in financial reporting, and compliance with the relevant legal rules, and that the design and enforcement of internal control are effective.
- D. Through prudent assessment, all units of the Bank did faithfully enforce the internal control and legal compliance except for those events listed on the attached table. The Statement of the Internal Control System will be a prominent feature of our annual report and prospectus, and will be released to the public. Should any statement herein involve forgery, concealment or any other illegality, Articles 20, 32, 171 and 174 of the “Security and Exchange Act”, and “Insurance Law” shall apply.
- E. This statement of declaration has been approved by the Board on March 21, 2019.

Declarants

Chairman



President



Chief Auditor



Chief Compliance Officer



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



Matters Requiring Improvements and Improvement Plan for Bank of Kaohsiung Internal Control System (Base Date : Dec. 31, 2018)

Matters Requiring Improvements	Improvement Measures	Estimated Time of Improvement Completion
1. The Bank handled the case of the former Liu Ho Branch creditor's account with the false purchase and sale contract, and the lack of the implementation of the credit authorization operation procedures and the post-loan review and follow-up assessment work, which hindered the sound management. The FSC shall, on May 10, 2018, stipulate the first paragraph of Article 61 of the Banking Law, that the nuclear service shall be corrected. The improvement should be strengthened as follows: (1) Strengthen the authorization letter and the price control mechanism. (2) Implement post-loan tracking management operations. (3) Strengthen the training of the credit information business.	1. Strengthen the authorization letter and the price control mechanism: (1) Fully implement the review system for the valuation of real estate collateral and strengthen the credit risk of controlling the case of power. (2) To upgrade the Bank's "Check-in Form for Individual Real Estate Guarantee Loan" and establish a source control mechanism for credit cases to prevent the occurrence of bad credit cases. 2. Implement post-loan tracking management operations: (1) Check the balance of the principal and interest payment of the new home loan households, and track the reasonableness of the third party's payment of principal and interest. (2) Increase the purchase of housing loans "Application for Appointed Payee Information", strengthen the review of the use of funds, and implement the flow of funds to check operations. (3) Within 3 months after the loan is released, the actual price registration data should be checked back, and the trading price key file will be checked back. The monthly production and purchase price of the system does not meet the statement, which is used as a reference for the management credit officer. 3. Strengthen the training of the credit information business: Cases that have been missing and should be noted in this case have been made into a case, and the business unit of the Circular has paid attention to it and has been included in the Bank's education and training courses.	1. A review has been carried out to improve and strengthen the credit and post-loan management mechanism. 2. Include in the internal audit key review and continue to track the situation.
2. The Bank's control of the limit ratio of Article 72 of the Banking Law, the handling of money trust fund trading transactions and money laundering operations, etc., hinder the sound operation, after the Financial Management Association September 12, 2018 According to Article 61(1) of the Banking Law and Article 44 of the Trust Industry Law, the nuclear service shall be corrected. The improvement should be strengthened as follows: (1) Strengthen the review of the correctness of the use of funds and the establishment of documents and strengthen the regulations and practice training of credit letters. (2) Increase the standard of repair and repair business and strengthen education propaganda and strengthen the trust fund trading control mechanism. (3) Establish anti-money laundering system and increase control measures and strengthen anti-money laundering education and training.	1. Banking Law Article 72 2 Limit Ratio Control: (1) Strengthen the review of the use of funds and the correctness of filing: The system has produced the "Debt Use and Loan Fund Flows and the 72-2 File Checklist" to strengthen the review of the borrower's use of funds and the correctness of the file classification, and reiterated the relevant provisions in the circular. The business unit does follow the rules. (2) Strengthen the regulations and practice training of credit information: Cases that have been missing and should be noted in the case have been made into a case, and the business unit of the circular has paid attention to it and has been included in the education and training of the Bank. 2. Money trust fund trading related business: (1) Increase the standard of repair and repair business and strengthen education propaganda: The "Procedures for Self-discipline of Financial Business Personnel" and the "Measures for Dealing with Insider Trading and Conflict of Interests in Wealth Management Business" will be added. It is strictly forbidden to conduct business operations and strengthen education and publicity. (2) Strengthening the control mechanism for trust fund transactions: ①Update fund electronic transaction monitoring mechanism: For the same IP address trust fund transaction and online transactions of the same IP address between the client and the client, the Bank has updated the checklist control; and the business unit will check whether there is any illegal use of non-registered computer equipment. situation. ②It is strictly forbidden to conduct fund transactions by telephone: In addition to reaffirming the relevant regulations, the Bank has added a new "Customer Cabinet and External Access Fund Trading Confirmation Checklist" control. ③Management of E-mail mailboxes for financial personnel: The information system monthly production check-up report strengthens the control of the use of the same e-mail address by the wealth manager and the customer. 3. Money laundering prevention operations: (1) Establish anti-money laundering system and add control measures: ①The Bank has implemented the anti-money laundering system since 2018.1.2, and in accordance with the "suspected money laundering or terrorism transaction" of the Association of Banks, the relevant suspected money laundering transaction is included in the system for inspection; The system should automatically bring out the assessment description field, and ask the business unit to strengthen the inspection and retain the verification track. ②Strengthen customer identification and risk grading: A. Amend the "Wholesale Money Laundering and Risk Risk Assessment Model Form" and update the customer "risk score" inspection mechanism and "continuous risk rating management" measures. B. Add the "Industry Low Risk Keyword - Inspection Report", and the compliance department will review the correctness of the customer's occupational risk every week. C. Explicitly set up an overseas customer to open an account to confirm the identity of the operation, and should accurately collect the supporting information of the nature of the customer's industry; and the system automatically annotates the license to overdue the depositors to strengthen control. (2) Strengthen anti-money laundering education and training: Regulations on anti-money laundering and anti-terrorism have been incorporated into the Bank's laws and regulations to follow the implementation plan, and education training has been held for suspicious transaction review, system risk score review and continuous risk rating management to enhance the implementation of the operation.	1. Improved control measures have been adopted and the information system inspection mechanism has been strengthened. 2. Include in the internal audit key review and continue to track the situation.

II . Declaration Enforcement of the Information Security System.

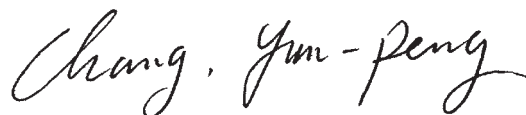
Bank of Kaohsiung
Declaration Enforcement of the Information Security System
Attn : Financial Supervisory Commission

Feb. 12, 2019

We, the Undersigned, hereby on behalf of Bank of Kaohsiung Co., Ltd. declared that during the period beginning Jan. 1, 2018 until Dec. 31, 2018, we did faithfully build the information security systems in accordance with Article 38, Section 5 and Article 38-1 of the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” and “Information security self-regulation” . After careful evaluation, the overall implementation of information security in this year can be effectively implemented. If there is any fraud, the company shall be liable for all legal consequences.

Declarants

Chairman



President



Chief Auditor



Head of Information Security



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



III. Independent Auditor's Report on Internal Control System.

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

Crowe Horwath (TW) CPAs
Member Crowe Horwath International

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

Mar. 21, 2019

To: Bank of Kaohsiung Co., Ltd.

We have audited the accuracy of financial information of Bank of Kaohsiung declared to the competent authority in 2018, the internal control system, the pursuit of the compliance system, and the policy of appropriation for bad debts in accordance with the procedure agreed thereon. The management of the Bank of Kaohsiung is fully discrete in the final decision of these procedures. We decline any opinion on whether such information is sufficient or not. We conducted our audits pursuant to the Statement of Auditing Standard No. 34, "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information", the purpose of which is to assist Bank of Kaohsiung in the assessment of the state of compliance with the "Regulations Governing the Implementation of Internal Control and Audit Systems of Financial Holding Companies and Banks" promulgated by the Financial Supervisory Commission. The management of Bank of Kaohsiung shall be responsible for the sufficiency and accuracy of the aforementioned content. We conducted our audit on these procedures, on a selective basis, with the detection of the following and elaborated upon them in a separate appendix.

We did not conduct the audit in accordance with the auditing principles generally accepted in the Republic of China, and disclaim any responsibility for the reliability and accuracy of the information, internal control system, and the status of compliance, the policy of provision for bad debts so declared by Bank of Kaohsiung with the competent authority in any regards. We may discover other matters for reporting should the audit be conducted in conjunction with other procedures or in accordance with the auditing principles generally accepted in the Republic of China.

This report is prepared for the purpose of Bank of Kaohsiung specified in the first paragraph of this report and not for any other purposes or for release to any other parties.

Crowe Horwath (TW) CPAs

CPA: Jen-Yao Hsieh

Hsieh JEN YAO

CPA: Ping-Chang Su

Su Ping Chang

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

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

I . Indictment by Prosecutors Against the Responsible Person or Staff Members because of a Crime Committed on Duty:

The Bank's former member Chu ○ ○ false account opening, counterfeit loans and over-charged B cases, on March 31, 2018, the prosecutor filed a public prosecution in violation of Article 125 of the Banking Law, etc., now the court heard; The main missing and improved situations are as described in the following II . (i).

II . Penalty for Violation of Acts:

(i) Former banking staff Chu ○ ○ opened phony accounts, cheating in applications for loans, and charged excessive fees.

A. Penalty :

In the corruption case of former banking staff Chu x-Shuo in opening phony accounts, cheating in requesting loans, and charging excessive fees, Chu was proved in violation of Subparagraph 1, Paragraph 1, Article 45 of the Banking Act, and pursuant to Paragraph 7, Article 129 of the Banking Act, Chu was fined by the Financial Supervisory Commission amounting to NT\$4 million on December 19, 2017. Likewise, Chu was dismissed from BOK by the order of the FSC pursuant to Subparagraph 3, Paragraph 1, Article 61-1 of the same law.

B. Major defects :

- (A) Chu was allegedly using the ID documents of other loan account customers, friends and relatives, to open deposit accounts using his own confirmation by affixing his own signature thereunto, which is a violation of the rules of the Bank in the review of opening new accounts.
- (B) Chu made use of his position as a loan account administrator to allegedly draw funds from the credit limit already approved in the name of customers without the acknowledgement and authorization of the customers to apply for mortgage and consumer loans. The loan officers occasionally failed to conduct on-site appraisal of the property and review the change and cancellation of the content of the mortgage with caution, failed to counter-confirm, and failed to perform proper management on the loan documents, files, and the envelop holding items for lodgment.
- (C) Chu was allegedly charged with counterfeiting the approval seal of the Bank and issuing receipts manually to charge customers for the service of loan processing at a rate higher than the usual rate for lending.

C. Improvement :

- (A) Intensify the operation of the confirmation of opening new accounts which are not at the counter by telephoning and keeping record of the details.
- (B) The E-LOAN system of BOK shall be used for processing all credit information check sand loan approvals. The review officers shall cross-check the information on the borrowers to fortify the review of credit information checks.
- (C) Exercise control over the circulation of blank forms on the consent of cancellation of liens/mortgages, the online inward/outward circulation of the bags for keeping collateral, and intensify post-approval management.
- (D) The statement of authorization from the customers is required for billing service charges for opening new accounts and payment shall be settled by fund transfer linked to the loan accounts.
- (E) Establishment of the mechanism for counter-guarantees and reconfirmation for accounts not opened at the counter.
- (F) Establishment of the “List of Loan Accounts Identical with the Contact Information of the Banking Staff of BOK and their affiliated accounts” for the review and confirmation of banking units.

(ii) The Loans to Ching Fu Shipbuilding Co., Ltd. and its affiliates.

A. Penalty :

In the financing of Ching Fu Shipbuilding and its affiliates, BOK failed to establish and properly pursue internal control in credit information, loan processing, and post-approval management, which is a violation of Paragraph 1, Article 45-1 of the Banking Act, and was fined by the Financial Supervisory Commission amounting to NT\$8 million on December 29, 2017 pursuant to Paragraph 7, Article 129 of the same law. .



B. Major defects :

- (A) No proper action taken on corporate governance in loan management.
- (B) Failure in establishing a general internal control system and regulations governing special loans.
- (C) Improper internal control of credit information, loan processing, and post-approval management and assessment of the risk to assume so that proper policies and procedures could be adopted to control the risk within tolerances.

C. Improvement :

- (A) Review the regulations of the Bank governing credit limits and revise the content of the comprehensive credit information sheet to control credit risk.
- (B) Establishment of the "Corporate Loan Post-Drawdown Cash Flows Control List" for proper post-approval management.
- (C) Intensify industry analysis, appraisal, training on the legal aspects of credit information checks and related practices to strengthen the capacity of the loan officers in financial and industry analysis.
- (D) Tighten the review procedure of syndicated loan reviews and approvals, and regulate for a second review of all syndicated loans. For loans being drawn in line with the progress of construction projects, conduct an on-site survey and investigation.
- (E) Establishment of the operation standard for special loans as the guide for processing special loans.

III. Penalty for Violation of the Article 61-1 Banking Law :

- (i) The case of opening phony accounts, cheating in requesting loans, and billing excessive fees by former banking staff Chu ○○ : refer to II-(i).
- (ii) Anti-money laundering related business operation

A. Penalty:

In the anti-money laundering-related business operation, the Bank was found defective and likely to be a hindrance to sound management. As a result, the Financial Supervisory Commission resolved on August 25, 2017 that corrective measure should be taken in accordance with Paragraph 1, Article 61~1 of the Banking Act.

B. Major defects:

Toward the transactions with a sign of suspicious money laundering, in some cases the Bank did not yet cover them all into the information system statements for verification and, as a result, the verification reports could not come out. The Bank did not remark or archive the inspection records and, in turn, the Bank could not verify or look into the objectives and backgrounds of the transactions as the grounds to evaluate whether they would call for a suspicious money laundering case, as a defect found in the suspicious money laundering transaction.

C. Improvement:

- (A) Aiming at those same cases where the signs of suspicious money laundering transactions could not be covered into the information system statements, the Bank has duly covered such cases into the system. Moreover, aiming at the outward remittances and remittances from "nations or regions with higher risks in money laundering and financing of terrorism", the Bank has duly stipulated "Transaction Statements for Outward (Inward) Remittances in a Nation Consistent with Nations or Regions with Higher Risks in Money Laundering and Financing of Terrorism of the Bank". The Bank management has advised all business units to prudentially inspect the cases and to archive the inspection records.
 - (B) The Bank has advised all business units by mail to put the Specifications of Money Laundering Prevention Operation, the method and specimens to monitor and inspect suspicious money laundering transaction into faithful enforcement and into the teaching materials/kits for anti-money laundering related educational & training programs of the Bank.
 - (C) The Bank has duly set up an anti-money laundering system (AML) in an effort to strengthen customer risk review and the mechanism to monitor suspicious money laundering transactions.
- (iii) The Bank's former Liuhe Branch credit card households used the false purchase and sale contract to apply for a home loan.

A. Penalty:

The Bank's handling of home loan operations has been flawed and hindered the sound operation. On May 10, 2018, the Financial Management Committee shall, in accordance with Article 61, paragraph 1, of the Banking Law, stipulates that it should be corrected.

B. Major defects:

The Bank handled the case of the former Liuhe branch credit card households using the false purchase and sale contract to purchase the loan, and the lack of the implementation of the credit authorization operation procedures and the failure to implement the post-loan review and tracking assessment work.

C. Improvement:

(A) Strengthen the authorization letter and the price control mechanism:

1. Fully implement the review system for the valuation of real estate collateral and strengthen the credit risk of controlling the case of power.
2. To upgrade the Bank's "Check-in Form for Individual Real Estate Guarantee Loan" and establish a source control mechanism for credit cases to prevent the occurrence of bad credit cases.

(B) Implement post-loan tracking management operations:

1. Check the balance of the principal and interest payment of the new home loan households, and track the reasonableness of the third party's payment of principal and interest.
2. Increase the purchase of housing loans "Application for Appointed Payee Information", strengthen the review of the use of funds, and implement the flow of funds to check operations.
3. Within 3 months after the loan is released, the actual price registration data should be checked back, and the trading price key file will be checked back. The monthly production and purchase price of the system does not meet the statement, which is used as a reference for the management credit officer.

(C) Strengthen the training of the credit information business:

Cases that have been missing and should be noted in this case have been made into a case, and the business unit of the Circular has paid attention to it and has been included in the Bank's education and training courses.

(iv) The Bank's lack of control over the limit ratio of Article 72 of the Banking Law, the trading of money trust funds and the operation of money laundering prevention

A. Penalty:

The Bank's control of the limit ratio of Article 72 of the Banking Law, the handling of money trust fund trading transactions and money laundering operations, etc., hinder the sound operation, after the Financial Management Association September 12, 2018 According to Article 61(1) of the Banking Law and Article 44 of the Trust Industry Law, the nuclear service shall be corrected.

B. Major defects:

- (A) Handling the control of the ratio of the loan limit of residential buildings and corporate buildings in Article 72 of the Banking Law, there are unsuccessful mistakes and misclassifications.
- (B) The bank account number and password of the customer's exclusive custody, the science and its customers use the same IP address for online fund transactions and risk attribute evaluation, and handle transactions through online banking on behalf of customers.
- (C) Handling money laundering and prevention operations, the transaction of suspected money laundering characterization is not included in the information system check or the inspection conditions are not complete; or the inspection operation fails to prudently confirm the reasonableness of the customer transaction and retain the verification trajectory; And the lack of risk grading operations, etc.

C. Improvement:

(A) Banking Law Article 72 2 Limit Ratio Control:

1. Strengthen the review of the use of funds and the correctness of filing:

The system has produced the "Debt Use and Loan Fund Flows and the 72-2 File Checklist" to strengthen the review of the borrower's use of funds and the correctness of the file classification, and reiterated the relevant provisions in the circular. The business unit does follow the rules.

2. Strengthen the regulations and practice training of credit information:

Cases that have been missing and should be noted in the case have been made into a case, and the business unit of the circular has paid attention to it and has been included in the education and training of the Bank.

(B) Money trust fund trading related business:

1. Increase the standard of repair and repair business and strengthen education propaganda:



The "Procedures for Self-discipline of Financial Business Personnel" and the "Measures for Dealing with Insider Trading and Conflict of Interests in Wealth Management Business" will be added. It is strictly forbidden to conduct business operations and strengthen education and publicity.

2. Strengthening the control mechanism for trust fund transactions:

(1) Update fund electronic transaction monitoring mechanism:

For the same IP address trust fund transaction and online transactions of the same IP address between the client and the client, the Bank has updated the checklist control; and the business unit will check whether there is any illegal use of non-registered computer equipment. situation.

(2) It is strictly forbidden to conduct fund transactions by telephone:

In addition to reaffirming the relevant regulations, the Bank has added a new "Customer Cabinet and External Access Fund Trading Confirmation Checklist" control.

(3) Management of E-mail mailboxes for financial personnel:

The information system monthly production check-up report strengthens the control of the use of the same e-mail address by the wealth manager and the customer.

(C) Money laundering prevention operations:

1. Establish anti-money laundering system and add control measures:

The Bank has implemented the anti-money laundering system since 2018.1.2, and in accordance with the "suspected money laundering or terrorism transaction" of the Association of Banks, the relevant suspected money laundering transaction is included in the system for inspection; The system should automatically bring out the assessment description field, and ask the business unit to strengthen the inspection and retain the verification track.

2. Strengthen customer identification and risk grading:

Amend the "Wholesale Money Laundering and Risk Risk Assessment Model Form" and update the customer "risk score" inspection mechanism and "continuous risk rating management" measures. Add the "Industry Low Risk Keyword – Inspection Report", and the compliance department will review the correctness of the customer's occupational risk every week. Explicitly set up an overseas customer to open an account to confirm the identity of the operation, and should accurately collect the supporting information of the nature of the customer's industry; and the system automatically annotates the license to overdue the depositors to strengthen control.

3. Strengthen anti-money laundering education and training:

Regulations on anti-money laundering and anti-terrorism have been incorporated into the Bank's laws and regulations to follow the implementation plan, and education training has been held for suspicious transaction review, system risk score review and continuous risk rating management to enhance the implementation of the operation.

IV. The Major Occasional Frauds, Contingencies (Fraud, Theft, Embezzlement, and Robbery, False Transaction, Forged Document and Marketable Securities, Kick Back, Natural Disaster Loss, Loss from External Factors, Hacker Attack, Data Theft, and Disclosure of Confidential Information and Customer Data and Such Major Incidents) or Security Accidents Resulting from the Failure to Practice Security Works, or the Incidents Which Resulted in Loss Over NT\$50 Million Over the Past Two Years

Unit: NTD1,000

Code	Nature of the event	Loss estimated	
		Dec. 31, 2017	Dec. 31, 2018
1	A former teller of the Bank by the name of Chu ○○ committed fraudulent practices in opening accounts, bank loans and overcharging of fees (in the crimes of fraud, falsified transactions, forging of vouchers).	2,704	4,704
2	A former loan recipient of the Bank's Liuhe Branch applied for a house loan with a falsified contract (a significant accidental event - fraud, falsified transaction)	9,010	21,824
3	Loans to Ching Fu Shipbuilding and affiliates (significant contingent incident – loss inflicted by external force)	749,000	815,000
	Total	760,714	841,528

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

3.4.13 Important Decisions Resolved in the Regular Shareholders' Meeting, Regular Board of Director's Meeting and Special Meeting as in FY 2018 and up to March 2019

I. Important Resolutions in the Regular Shareholders' Meeting and the Execution of the Resolutions Reached:

The Resolutions	The Execution of the Resolutions
1. Earnings distribution for FY 2017.	Earnings per share at NT\$0.5(including cash dividend of NT\$0.13and stock dividend of NT\$0.37). Distribution completed on Oct. 9, 2018.
2. Business report and financial statement for FY 2017.	The FY2017 business report and financial statement was passed..
3.Amendment to the "Articles of Incorporation" .	Amendment to Articles 21 and 25 of the "Articles of Incorporation" was passed.
4. The surplus and capital reserve will be transferred to the capital to issue new shares.	Shareholders' dividends were distributed per share at NT\$0.37 (including a surplus share of NT\$0.2 and a capital reserve of NT\$0.17). On October 9, 2018, the company allocated shares to shareholders and new shares for sale and was successfully completed.
5. Lift the ban on the competition among the Chairman Yun-Peng Chang.	Lift the ban on the competition among the Chairman Yun-Peng Chang was passed.

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

Date	The Resolutions
2018.02.23	Discussed the amendments to the provisions of the "Procedures for the Management of Personnel in Financial Management Personnel" of the Bank's "Management Measures for Personnel Management of Financial Management Personnel".
2018.02.23	In order to control the Bank's credit risk to the group companies, we discussed the amendments to the "Top 20 Group Credit Rating Quota Schemes for the Bank's Credit Lines".
2018.02.23	In response to the requirements of the competent authorities and strengthening the risk management of the Bank's project financing, the new "BOK Handling Project Financing Guidelines" was discussed.
2018.02.23	The discussion passed the revision of the "BOK Legal Risk Management Guidelines".
2018.03.22	Discussed the "Agreement Procedures for Accountant Inspection of BOK" issued by Crowe Horwath (TW) CPAs (2017 January 1 to December 31, 2017).
2018.03.22	Passed the Bank's FY2017 Business Profile Report.
2018.03.22	Discussion The Bank established the Insurance Agency on January 23, 2018, and completed the merger with the two subsidiaries of "BOK Life Insurance Agent (Share) Company" and "BOK Property Insurance Agent (Share) Company" case.
2018.03.22	Discussed the merger and individual financial report of the Bank's 2017 (January 1 to December 31, 2017) and the draft of the check report issued by Crowe Horwath (TW) CPAs.
2018.03.22	Discussions were made to amend the provisions of Articles 21 and 25 of the Bank's Articles of Association.
2018.03.22	To cope with the preparation of the Bank's annual report and to report to the competent authority and to make an announcement, we will discuss the 2017 Internal Control System Statement, the Insurance Agency Business Internal Control System Statement and the Internal Control System Performance Assessment Report.
2018.03.22	In order to cope with the model of anti-money laundering and anti-terrorism measures set by banks and other commercial trade associations, we discussed the amendments to the "Kawasuke Bank (including concurrent business) prevention of money laundering and anti-terrorism considerations".
2018.03.22	Discussions were amended through Articles 4, 7 and 9 of the Bank's Investment Policy Guidelines.
2018.03.22	For the sake of operational management, we discussed the amendments to the provisions of the "Retirement and Remittance Keys for BOK Practitioners".
2018.05.10	Discussed the financial report of the Bank's first quarter of 2018 (January 1 to March 31, 2018) and the draft report prepared by Crowe Horwath (TW) CPAs.
2018.05.10	Discussions were made to amend 23 of the Bank's "Information Business and Security Policy Implementation Guidelines".
2018.05.10	The discussion passed the revision of Article 8 of the "National Risk Limit Management Guidelines" and the "National Risk Limit Table".
2018.05.10	Discuss the comparison table of the draft amendments to the "Handling of Futures Trading Practices" and "Financial Commodity Review Group Operational Guidelines" by the Bank.
2018.05.10	In order to comply with the amendments to the Act, the discussion passed the amendments to the provisions of the "Working Rules of BOK".



Date	The Resolutions
2018.06.20	Discussions were made to amend Articles 6 and 7 of the Bank's "Code of Practice for the Implementation of the Enforcement Compliance System".
2018.06.20	Discussed by amending Article 16 of the "Code of Practice for Corporate Social Responsibility of BOK".
2018.06.20	Discussions were made to amend some of the provisions of the "BOK Information Business and Security Policy Implementation Guidelines".
2018.06.20	Discuss the comparison table of draft amendments to the Bank's "Measures for Handling Futures Trading".
2018.08.16	Discussed the financial report of the Bank's second quarter of 2018 (January 1 to June 30, 2018) and the draft report prepared by Crowe Horwath (TW) CPAs.
2018.08.16	For the distribution of new shares (37,119,281 shares) and cash dividends (130,419,097 yuan) for the 2017 annual surplus and capital reserve, the discussion will confirm the number of shares issued and formulate the relevant dates such as the base date of the rights issue and the date of issuance.
2018.08.16	In response to business needs, the discussion passed the amendment to the fourth article of the "Regulations on the Board of Directors of the BOK".
2018.08.16	To revise the sub-business, to discuss the "Procedures for the Prevention of Money Laundering and Terrorism" and the "Guidelines for assessing the risk of money laundering and risk-taking and setting up relevant prevention plans" Conduct "Precautions against money laundering and counter-terrorism" and "Assessing the risk of money laundering and risk-taking and setting up prevention and control policies and procedures".
2018.08.16	In order to provide diversified services for customers, we discussed the exchange of exchanges between NTD and foreign currencies.
2018.08.16	Discuss the draft comparison table of the amendments to the provisions of the Bank's "Guidelines for the Operation of Derivative Financial Instruments".
2018.08.16	Discuss the draft comparison table of some amendments to the provisions of the Bank's "International Financial Business Branch Management of Derivative Financial Products Business Measures".
2018.08.16	Discuss the draft comparison table of the draft amendments to the "Financial Commodity Review Group Operational Guidelines" of the Bank.
2018.08.16	The discussion was made through the formulation of the "BOK Computer Security Information Security Assessment Program".
2018.08.16	The discussion was made through the formulation of the "BOK Reporting Case Handling Standards Operation Method".
2018.10.11	The discussion passed the amendment of the Bank's "International Financial Business Branch Management and Management Guidelines".
2018.11.08	Discussed the financial report of the Bank's third quarter of 2018 (January 1 to September 30, 2018) and the draft report prepared by Crowe Horwath (TW) CPAs.
2018.11.08	Discussed by amending the Bank's "Protection of Insurance Agents to Prevent Money Laundering and Countering Terrorism" and its appendix "Suspected Money Laundering or Terrorism Trading Situation", "Concurrent Insurance Agent Business Assessment Money Laundering and Risk of Risks" Provisions for the Prevention of Plan Policy and Procedures.
2018.11.08	Discussed by amending the provisions of Article 9 of the Bank's "Management Measures for Personnel Management of Financial Management Personnel".
2018.11.08	Discussed by amending the provisions of the "BOK Stratification Responsibility Schedule".
2018.11.08	For the substantial personal/property insurance agent of the Bank, discuss the matters related to the appointment of current employees and the signatory of insurance agents.
2018.12.20	Discussed through the Bank's "2019 Annual Operating Plan".
2018.12.20	Discussed the "Draft Operating Budget" of the Bank in 2019 (January 1 to December 31, 2019).
2018.12.20	Discuss the 2019 internal audit plan prepared by the Bank.
2018.12.20	Discussed the 2019 annual internal audit operation check plan through the Bank's concurrent securities business.
2018.12.20	Discussed the adoption of the new "Integrity Code of Practice".
2018.12.20	The discussion was made by amending the Bank's "Guidelines for the Handling of Derivative Financial Instruments".
2018.12.20	Discuss the amendments to some of the provisions of the Bank's Measures for the Administration of Risk Management of Derivative Financial Products.
2018.12.20	The discussion was amended through Article 4 of the Bank's "BOK Transfer Investment Equity Management Guidelines".
2018.12.20	To discuss the adoption of the newly revised "Guidelines for the Implementation of the Internal Control Auditing System and the Soliciting and Handling System of BOK Insurance Agency Business".

3.4.14 The Documented Disagreement or Written Statement of the Directors Against the Important Resolutions Reached by the Board of Directors in FY 2018 and up to Mar. 2019:

Date	The Important Resolutions	The Summary of Objection
None	None	None

3.4.15 Summarization of Resignation and Dismissal of Parties (Including Directors, President, Financial Supervisor, Accounting Supervisor and Internal Audit Supervisor) Related to the Bank in FY 2018 and up to Mar. 2019:

Position	Name	Date of Employment	Date of Dismissal	Reason for Resignation or Dismissal
Accounting supervisor	Anna Hsu	Jul. 01,2012	Feb. 01,2018	Retired

3.5 Information Regarding Fee

Range of Information Regarding Fee

The Name of the Office of CPA	The Name of the CPA		Audit Period	Remark
Crowe Horwath (TW) CPAs	Jen-Yao Hsieh	Ping-Chang Su	Jan. 1~Dec.31, 2018	None

Unit :NT\$ Thousand

Fee Items Range of Amount	Audit Fee	Non-Audit Fee	Amount
under 2 million	None	1,410	1,410
2 million (included) ~ 4 million	2,090	None	2,090
4 million (included) ~ 6 million	None	None	None
6 million (included) ~ 8 million	None	None	None
8 million (included) ~ 10 million	None	None	None
over 10 million	None	None	None

Unit :NT\$ Thousand

The Name of the Office of CPA	The Name of the CPA	Audit Fee	Non-Audit Fee					CPA Audit Period	Remark
			System Design	Business Registration	Human Resources	Others	Sub-Total		
Crowe Horwath (TW) CPAs	Jen-Yao Hsieh	2,090	0	0	0	1,410 (Note)	1,410	Jan. 1~Dec.31, 2018	None
	Ping-Chang Su								

Note: The list of "non-audit public fees - other" amount of NT\$1,410 thousand , mainly for the personal data protection mechanism check NT\$200 thousand ; bank money laundering and anti-terrorism NT\$550 thousand ; CRS project 1.2 service fee NT\$470 thousand ; the rest is the business tax direct deduction Visa fees such as legal check, simple merger change registration, sales of bad debts, issuance of financial debt assessment reports, surplus and capital reserve to capital increase, totaling NT\$190 thousand.



3.6 Alternation of CPA

3.6.1 About the Former CPA

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

3.6.2 About the Successive CPA

The name of the office of CPA	None
The name of the CPA	None
Date of appointment	None
Before the successive CPA is appointed, if it inquired such accountant about the accounting treatment method of specific transactions or the applicable accounting principles and his / her possible opinion on the financial report, it shall disclose the matters it inquired about and the result thereof	None
The successive CPA's written opinion in connection with the discrepancy of opinion between it and the former CPA	None

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

3.7 Chairman, President or Managers Responsible for Financial or Accounting Business Assume Positions in the Office of CPA Certified the Bank's Financial Statement or in the Affiliates Thereof in the Latest Year: None.

3.8 Changes in Shareholding of Directors, Managers and Persons who Must Declare their Shares Pursuant to Article 11 of “Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank.” for FY 2018 and up to Mar. 2019

3.8.1 Change of Shares

Title	Name	Jan. 1~Dec.31, 2018		Jan. 1~Mar.31, 2019	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Chairman	Yun-Peng Chang (Representative of Kaohsiung City Government)	0	0	0	0
Independent Director and Managing Director	Wen-Yuan Lin	0	0	0	0
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government) retired on Apr 20,2018	0	0	0	0
Managing Director	Chen-Cheng Chien (Representative of Kaohsiung City Government) retired on Nov 15,2018	0	0	0	0
Managing Director	Liang-Chien Lee (Representative of Kaohsiung City Government)	0	0	0	0
Managing Director	Ho-Chung Fu (Representative of Kaohsiung City Government)	0	0	0	0
Managing Director	Yi-Der, Lee (Representative of Kaohsiung City Government) retired on Jan 21,2019	0	0	0	0
Managing Director	Mei-Miao Tseg (Representative of Kaohsiung City Government) retired on Jan 21,2019	0	0	0	0
Independent Director	Mei-Yueh Ho	0	0	0	0
Independent Director	Tzen-Ping Su	0	0	0	0
Director	Che Shih (Representative of Kaohsiung City Government) retired on Jan 21,2019	0	0	0	0
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government) Retired on Dec 31,2019	0	0	0	0
Director	Francis Lee (Representative of Kaohsiung City Government)	0	0	0	0
Director	Wei-Pi Tsai (Representative of Kaohsiung City Government)	0	0	0	0
Director	Tsung-kun Lee (Representative of Kaohsiung City Government)	(33,399)	0	0	0
Director	Chung-Hsin Liu (Representative of Jinn Her Enterprise Co., Ltd.)	0	0	0	0
Director	Richard Lee (Representative of Jinn Her Enterprise Co., Ltd)	0	0	0	0
Director	Wayne Tseng (Representative of Jinn Her Enterprise Co., Ltd)	0	0	0	0
Director	Jueifang P. Chen (Representative of Bank of Kaohsiung Corporate Union)	9,440	0	0	0
President	Jin-Ann Wang	16,509	0	0	0
Exec. Vice President	Tsui-Mei Hsu	4,806	0	0	0
Exec. Vice President and Senior Vice President, Risk Management Dept.	Johnson Huang	2,269	0	0	0
Exec. Vice President and Senior Vice President	J.C. Shou-Jen Chen Appointed on Apr.1, 2019	6,914	0	0	0



Title	Name	Jan. 1~Dec.31, 2018		Jan. 1~Mar.31, 2019	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Chief Auditor	Chung-Chen Lin	2,331	0	0	0
Consultant and Chief Secretary	Mei-Ling Chen	3,368	0	0	0
Chief Compliance Officer	Te-Chin Chou	2,211	0	0	0
Senior Vice President	Yi-Chen Yu	1,822	0	0	0
	Chin-yu Hsueh	196	0	0	0
	Jung-Tai Chang	1,983	0	0	0
	Yu-Chin Feng	941	0	0	0
	Shiu-Hui Liu	2,130	0	0	0
	J.C. Shou-Jen Chen	6,914	0	0	0
	I-Fen Chen	4,891	0	0	0
	Chiu-Mei Pan Appointed on Feb.1, 2019	0	0	50,000	0
Consultant and General Manager,	Wen-Lung Ting	2,229	0	0	0
General Manager	Chiu-Chin Huang	2,245	0	0	0
	Ying-Chung Lin	706	0	0	0
	Ching-Hui Lin	1,950	0	0	0
	Yuan-Chin Shiang	4,142	0	0	0
	Ming-Hung Wu	2,900	0	0	0
	Chiu-Lan Hsu	613	0	0	0
	Ming-Ta Yang	1,787	0	0	0
	Ching-Tsan Chen	1,460	0	0	0
	Chi-Jen Lin	2,300	0	0	0
	Wen-Jung Huang	355	0	0	0
	Hsien-Kuo Chen	2,193	0	0	0
	Ting-Kuang Huang	0	0	0	0
	Li-Hwa Chen	4,279	0	0	0
	Wei-Min Wu	2,058	0	0	0
	Shiow-Lien Su	4,239	0	0	0
	Shu-Z. Chen	786	0	0	0
	Mei-Chu Chang	4	0	0	0
	Hsi-Chieh Wu	0	0	0	0

Title	Name	Jan. 1~Dec.31, 2018		Jan. 1~Mar.31, 2019	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
	Wei-Tzu Huang	1,979	0	0	0
	Hsiu-Yen Wu	721	0	0	0
	Ying-Mien Hsu	1,533	0	0	0
	Hsien-Cheng Huang	6,179	0	0	0
	Chun-Wen Chen	0	0	0	0
	Wen-Hau Sher	2,130	0	0	0
	Chiung-Wen Chang	0	0	0	0
	Tai-Lu Tu	568	0	0	0
	Hueng-Fen Yen	1,749	0	0	0
	Tung-Feng Wu	1,835	0	0	0
	Don Huang	1,997	0	0	0
	Hwa-Jen Lee	2,270	0	0	0
	Su-Mo Liang	2,555	0	0	0
	Pei-Fang Wang	1,606	0	0	0
	Yu-Huey Tsao	2,208	0	0	0
	Chuan-Pin Kao	1,946	0	0	0
	Tung-Chiang Sung	1,896	0	0	0
	Shou-Cheng Yen	349	0	0	0
	Ming-Jing Sun	1,002	0	0	0
	Chia-Hung Chen	808	0	0	0
	Hui-Wen Chiu	1,124	0	0	0
	Chi-Feng Liou Appointed on Feb. 1, 2019	0	0	0	0
	Yu-Sheng Tsai Appointed on Apr. 1, 2019	—	—	—	—
	Shi-Yen Huang Appointed on Apr. 1, 2019	—	—	—	—
Corporate shareholders on behalf of the Directors (Note)	Kaohsiung City Government	16,008,334	0	0	0
Corporate shareholders on behalf of the Directors (Note)	Jinn Her Enterprise Co., Ltd.	4,031,840	0	2,250,000	0
Corporate shareholders on behalf of the Directors (Note)	Bank of Kaohsiung Corporate Union	549,577	0	0	0

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



3.8.2 Information of Share Transfer

Name	Reason of Share Transfer	Date of transaction	The counterparties of share transfer	Relation of the Transaction Counterparties and Directors, Supervisors of Bank and Persons who Must Declare their Shares Pursuant to Article 11 of "Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank."	Number	Amount on Pledged Shares
None	None	None	None	None	None	None

Note: There is no case of share pledges in FY 2018 and up to the Mar. 2019.

3.8.3 Information of Pledged Shares

Name	Reason of Pledged Shares	Date of change	The counterparties of share transfer	Relation of the Transaction Counterparties and Directors, Supervisors of Bank and Persons who Must Declare their Shares Pursuant to Article 11 of "Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank."	Number	Amount on Pledged Shares
None	None	None	None	None	None	None

Note: There is no case of share pledges in FY 2018 and up to the Mar. 2019.

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

Sep. 11, 2018

Name	Shareholding		Spouse & Minor Shareholding		Shares Held through Other Parties		Names and Relationship of Any of the Top Ten Shareholders being a Related Party as Defined or spouse or relatives within 2nd degree of relationship	
	Shares	%	Shares	%	Shares	%	Name	Relationship
Kaohsiung City Government	448,666,036	43.13	0	0	0	0	None	None
Jinn Her Enterprise Co., Ltd.	96,352,444	9.26	0	0	0	0	Foundation Kaohsiung Jinn Her social welfare charity foundations	The same principal
Foundation Kaohsiung Jinn Her social welfare charity foundations	34,659,117	3.33	0	0	0	0	Jinn Her Enterprise Co., Ltd.	The same principal
Mr. Chen Qichuan, Foundation of Culture and Education Foundation	33,068,893	3.18	0	0	0	0	None	None
Yuan Yang Logistics Co., Ltd.	31,098,153	2.99	0	0	0	0	None	None
Chun-Chin Shih	22,314,452	2.14	18,278,426	1.76	0	0	Mei-Yuan Yu	Spouse
Standard Chartered international commercial banking department entrusted with the custody ISHARES MSCI Emerging Markets ETF core investment accounts	21,374,798	2.05	0	0	0	0	None	None
Mei-Yuan Yu	18,278,426	1.76	22,314,452	2.14	0	0	Chun-Chin Shih	Spouse
Citigroup (Taiwan) commercial banks entrusted with the custody Norges Bank investment accounts.	9,374,943	0.9	0	0	0	0	None	None
Citigroup (Taiwan) commercial banks entrusted with the custody dimensional assessment of emerging market investment fund accounts	6,291,081	0.6	0	0	0	0	None	None

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

Dec 31, 2018

Unit :Shares ; %

Name	The Bank's Investments		Investments of Directors, Supervisors, President, Exec. Vice Presidents, Heads of Departments and Branches and the Bank Directly or Indirectly Governed Business		Syndicated Investments	
	Shares	%	Shares	%	Shares	%
Taipei Forex Inc.	700,000	3.53179	0	0	700,000	3.53179
Taiwan Futures Exchange Corporation	1,002,268	0.30000	0	0	1,002,268	0.30000
Taiwan Finance Corporation	51,616,500	10.00000	0	0	51,616,500	10.00000
Waterland Securities Co., Ltd.	37,026,460	4.93686	0	0	37,026,460	4.93686
Taiwan Asset Management Corporation	6,000,000	0.56754	0	0	6,000,000	0.56754
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.94118	0	0	5,000,000	2.94118
Kaohsiung Rapid Transit Corporation	643,031	0.23080	0	0	643,031	0.23080
Financial Information Services Co., Ltd.	6,116,873	1.17181	0	0	6,116,873	1.17181
Taiwan Depository & Clearing Corporation	307,306	0.08298	0	0	307,306	0.08298
Sunny Asset Management Corporation	347	0.00578	0	0	347	0.00578
iPASS Corporation	4,000,000	3.50877	0	0	4,000,000	3.50877
TWMP Co., Ltd.	300,000	0.50000	0	0	300,000	0.50000



4.1 Capital and Shares

I . Issued Shares

Unit : NT\$

Year / Month /Date	Par Value	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Sources of Capital	Others
Mar. 31, 2019	10	1,500,000,000	15,000,000,000	1,040,343,106	10,403,431,060	Initial capital and capital increase by cash, by capital reserve, by special reserve, and by earnings in the past years.	—

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

II . Capital Increase Information

Unit : NT\$

FY	Authorized Capital		Remark	Authorized by the Competent Authority
	Paid-in Capital			
1983	—	450,000,000	Initial capital NT\$450 million by cash	MOF,Tai-Tsai-Rong-No.18127 (Jul. 8, 1981)
1988	—	650,000,000	Capital increase NT\$200 million by cash	MOF,Tai-Tsai-Rong-No.770059046 (Feb. 26, 1988)
1989	—	850,000,000	Capital increase NT\$200 million by cash	MOF,Tai-Tsai-Rong-No.770430291 (Nov. 23, 1988)
1990	—	1,050,000,000	Capital increase NT\$200 million by cash	MOF,Tai-Tsai-Rong-No.800078016 (Mar. 2, 1991)
1994	—	1,534,740,000	1. Capital increase NT\$190 million by special reserve 2. Capital increase NT\$294 million and 740 thousand by cash	MOF,Tai-Tsai-Rong-No.84707685 (Mar. 27, 1995)
1996	—	2,153,079,500	Capital increase NT\$618 million and 339.500 thousand by cash	MOF,Tai-Tsai-Rong-No.84377510 (Sep. 6, 1995)
1997 (1997.6.4)	—	2,367,968,260	Capital increase NT\$214 million and 888.760 thousand by cash	MOF,Tai-Tsai-Rong-No.86056443 (Mar. 11, 1997)
1998 (1997.10.9)	—	3,867,968,260	Capital increase NT\$1.5 billion by cash (Public solicit)	MOF,Tai-Tsai-Rong-No.86164514 (Jun. 10, 1997)
1999 (1999.3.1)	—	4,486,843,180	Capital increase NT\$618 million and 874.920 thousand by special reserve	MOF,Tai-Tsai-Rong-No.87419912 (Dec. 30, 1998)
2002 (2002.8.19)	—	4,576,580,040	Capital increase NT\$89 million and 736.860 thousand by earnings	MOF,Tai-Tsai-Rong-No.0910030462 (Jul. 10, 2002)
2004 (2004.8.16)	—	5,034,238,040	Capital increase NT\$457 million and 658 thousand by capital reserve	MOF, Tai-Tsai-Rong-(2)-No.0930020109 (Jun. 28, 2004)
2005 (2005.6.23)	15,000,000,000	5,034,238,040	Register authorized capital	FSC, Jin-Kuan-Yin-(2)-No.0948010949 (Jul. 27, 2005)
2008 (2008.8.26)	15,000,000,000	5,257,981,950	Capital increase NT\$223 million and 743.910 thousand by earnings	FSC, Jin-Kuan-Cheng-(1)-No.0970032868 (Jul. 9, 2008)
2011 (2011.8.7)	15,000,000,000	5,869,475,790	1. Capital increase NT\$78 million and 869.720 thousand by earning 2. Capital increase NT\$525 million and 798.190 thousand by special reserve 3. Capital increase NT\$6 million and 825.930 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1000031062 (Jul. 13, 2011)
2011 (2011.10.26)	15,000,000,000	7,069,475,790	Capital increase NT\$1.2 billion by cash	FSC, Jin-Kuan-Cheng-No.1000040741 (Sep. 8, 2011)
2013 (2013.09.12)	15,000,000,000	7,210,491,900	1. Capital increase NT\$127 million and 250.560 thousand by earning 2. Capital increase NT\$13 million and 765.550 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1020026476 (Jul. 15, 2013)
2014 (2014.10.06)	15,000,000,000	7,403,513,870	1. Capital increase NT\$43 million and 262.950 thousand by earning 2. Capital increase NT\$144 million and 209.830 thousand by special reserve 3. Capital increase NT\$5 million and 549.190 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1030028076 (Jul. 31, 2014)
2015 (2015.10.01)	15,000,000,000	7,788,659,250	1. Capital increase NT\$347 million and 965.150 thousand by earning 2. Capital increase NT\$37 million and 180.230 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1040026302 (Jul. 21, 2015)
2016 (2016.10.14)	15,000,000,000	8,232,238,250	1. Capital increase NT\$405 million and 10.280 thousand by earning 2. Capital increase NT\$38million and 568.720 thousand by employees' bonuses	FSC, Effective registration in Aug. 3, 2016.
2017 (2017.3.22)	15,000,000,000	10,032,238,250	Capital increase NT\$1.8 billion by cash	FSC, Jin-Kuan-Cheng-No.1050053219 (Jan. 9, 2017)
2018 (2018.9.11)	15,000,000,000	10,403,431,060	1.Capital increase NT\$200 million and 644.760 thousand by earning 2.Capital increase NT\$170 million and 548.050 thousand by special reserve	FSC, Effective registration in Aug. 13, 2018.

III. Type of Stock

2019.3.31

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stocks	1,040,343,106	459,656,894	1,500,000,000	Listed on the TSE

4.1.2 Status of Shareholders

2018.9.28

Item	Government Agencies	Financial Institutions	Other Juridicial Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	2	0	51	22,338	98	22,489
Shareholding	449,471,785	0	213,930,397	304,827,954	72,112,970	1,040,343,106
Percentage	43.2	0	20.56	29.31	6.93	100

4.1.3 Shareholding Distribution Status

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

2018.9.28

Class of Shareholding (Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 — 999	8,264	1,949,623	0.19
1,000 — 5,000	6,414	14,289,980	1.37
5,001 — 10,000	3,759	23,437,854	2.25
10,001 — 15,000	1,282	15,405,702	1.48
15,001 — 20,000	517	8,732,904	0.84
20,001 — 30,000	724	17,616,415	1.69
30,001 — 50,000	597	22,145,357	2.13
50,001 — 100,000	448	29,419,035	2.83
100,001 — 200,000	251	34,708,729	3.34
200,001 — 400,000	126	34,299,588	3.30
400,001 — 600,000	35	16,581,107	1.59
600,001 — 800,000	15	10,661,049	1.02
800,001 — 1,000,000	9	7,857,157	0.76
Over 1,000,001	48	803,238,606	77.21
Total	22,489	1,040,343,106	100.00

II. Preferred Shares : None.



4.1.4 List of Major Shareholders

2018.9.11

Shareholders's Name	Shareholding	
	Shares	Percentage
Kaohsiung City Government	448,666,036	43.13
Jinn Her Enterprise Co., Ltd.	96,352,444	9.26
Foundation Kaohsiung Jinn Her social welfare charity foundations	34,659,117	3.33
Mr. Chen Qichuan, Foundation of Culture and Education Foundation	33,068,893	3.18
Yuan Yang Logistics Co., Ltd.	31,098,153	2.99
Chun-Chin Shih	22,314,452	2.14
Standard Chartered international commercial banking department entrusted with the custody ISHARES MSCI Emerging Markets ETF core investment accounts	21,374,798	2.05
Mei-Yuan Yu	18,278,426	1.76
Citigroup (Taiwan) commercial banks entrusted with the custody Norges Bank investment accounts.	9,374,943	0.90
Citigroup (Taiwan) commercial banks entrusted with the custody dimensional assessment of emerging market investment fund accounts	6,291,081	0.60

Note: Major shareholder means who owns more than 1% of the Bank's outstanding shares or is one of the top ten shareholders.

4.1.5 Market Price, Net Worth, Earnings, and Dividends Per Share for the Past Two Years

Unit : NT\$

Item		FY	2018	2017
Market Price Per Share (Note 1)	Highest		9.90	10.40
	Lowest		9.05	8.97
	Average		9.55	9.57
Net Worth Per Share (Note 2)	Before Distribution		13.88	14.14
	After Distribution		—	14.01
Earnings Per Share	Weighted Average Shares		1,040,343,106	963,771,770
	Diluted Earnings Per Share		0.46	0.47
	Adjusted Diluted Earnings Per Share		—	0.45
Dividends Per Share	Cash Dividend		0.11	0.13
	Stock Dividends	Dividends from Retained Earnings	0.155	0.20
		Dividends from Capital Surplus	0.235	0.17
	Accumulated Undistributed Dividends		0	0
Return on Investment	Price / Earnings Ratio (Note 3)		20.76	20.36
	Price / Dividend Ratio (Note 4)		86.82	73.62
	Cash Dividend Yield Rate (%) (Note 5)		1.15	1.36

Note: 1. The highest and lowest market prices each year. The average market price each year is computed with trading value and volume of the corresponding year.

2. The computation is based on the total shares outstanding at the end of the year and approved appropriation in the subsequent Shareholders' Meeting.

3. Price / Earnings ratio = Average Market Price / Earnings per Share.

4. Price / Dividend ratio = Average Market Price / Cash dividends per Share.

5. Cash Dividend Yield Rate = Cash Dividend per Share / Average Market Price.

4.1.6 Dividend Policy and Implementation Status

- I . Dividend Policy : Please refer to page128 for “Notes to Financial Statements 6.22 Equity” .
- II . The FY 2019 shareholders meeting has resolved to distribute a cash dividend of NT\$0.11 and stock dividend of NT\$0.39, total NT\$.50 shareholders for FY 2018.

4.1.7 The Impact of Stock Dividend Distribution Resolved by the 2019 Shareholders Meeting on the Banks Operating Performance and Earnings Per Share (EPS): In this session, the Shareholders’ Meeting desired to pay out stock dividends from capitalization of retained earnings amounting to NT\$405.7738 million at the ratio of 3.9% (39 shares for every thousand shares). The basic EPS of BOK in 2018 was NT\$0.46and was estimated at NT\$0.44/ share after the payment of stock dividends from the capitalization of capital reserve and retained earnings. The influence of the adjustment on EPS was insignificant and had no influence on business performance.

4.1.8 Employees Bonus and Directors Remuneration

- I . Information relating to employees bonus and directors remuneration in the Articles of Incorporation please refer to page134 for “Notes to Financial Statements 6.32 Employees Benefit Expense” .

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

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

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

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

- III . The board of directors passed the 2018 apportioned remuneration:

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

Employee remuneration cash amount: NT\$ 21,843,522.

Employee remuneration shares amount: NT\$ 0.

Director remuneration amount: NT\$ 5,460,880.

Employee compensation compared with the estimated amount listed increase NT\$903,522, representing an estimated compensation of directors to reduce the amount of column NT\$225,880; Department differences caused by changes in accounting estimates, the amount of the difference between profit or loss adjusted fiscal FY 2019.

- (ii) The employee remuneration amount apportioned with shares and that amount accounting for the proportion of the net profit after tax in this term’ s single or individual financial report and the total number of employee remuneration: 4.36%.

- IV . The actual apportionment of employee, director and supervisor remuneration (including apportioned shares, amount and share price) of 2017. The number of difference, reasons and disposition shall be clarified if the remuneration is different from the recognized employee, director and supervisor remuneration:

- (i) Earnings distribution for employee bonus for FY 2017: NT\$24,778,176.

- (ii) Remuneration to directors and supervisors appropriated from retained earnings for FY 2017: NT\$6,194,544.

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

4.1.9 Buyback of Treasury Stock : None.

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

4.2.1 Financial Bonds

Item	Subordinate debt (2013-01)	Subordinate debt (2013-02)	Subordinate debt (2014-01)	Subordinate debt (2014-02)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-Guo-No. 10200181590 (July 9, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200181590 (July 9, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200341440 (Dec. 10, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200341440 (Dec. 10, 2013)
Date of Issuance	Aug. 6, 2013	Sep. 5, 2013	Mar. 25, 2014	Oct. 29, 2014
Par	5 million	1 million	10 million	10 million
Place of Issuance and Trade	Republic of China	Republic of China	Republic of China	Republic of China
Currency	New Taiwan Dollars	New Taiwan Dollars	New Taiwan Dollars	New Taiwan Dollars
Price of Issuance	100%	100%	100%	100%
Total Amount	1.3 billion	0.7 billion	1.2 billion	0.65 billion
Interest	Fixed rate 2.10%	Fixed rate 2.10%	Indicator Rate (Note) +0.85% Floating Interest Rate	Fixed rate 2.35%
Tenor	7 years, maturity date : Aug. 6, 2020	7 years, maturity date : Sep. 5, 2020	7 years, maturity date : Mar. 25, 2021	7 years, maturity date : Oct. 29, 2021
Senior / Subordinate debt	Subordinate debt	Subordinate debt	Subordinate debt	Subordinate debt
Guarantor	None	None	None	None
Trustee	None	None	None	None
Underwriter	Sino Pac securities, Yuan Ta securities, Master Link securities	Sino Pac securities, Yuan Ta securities	Sino Pac securities, Yuan Ta securities, Master Link securities	Yuan Ta securities
Certified Lawyers	None	None	None	None
Certified Public Accountants	None	None	None	None
Certification Institution	None	None	None	None
Repayment	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity
Outstanding Balance	1.3 billion	0.7 billion	1.2 billion	0.65 billion
Year 2008 Paid-in Capital	7.0 billion 69.47million 5 thousand 7 hundred and ninety	7.0 billion 69.47million 5 thousand 7 hundred and ninety	7.2 billion 10.49 million 1 thousand and 9 hundred.	7.2 billion 10.49 million 1 thousand and 9 hundred.
Year 2008 Total Stockholders' Equity	10.9 billion 4.61 million 3 thousand 9 hundred and ten	10.9 billion 4.61 million 3 thousand 9 hundred and ten	10.7 billion 49.04 million 1 thousand 9 hundred and seventy.	10.7 billion 49.04 million 1 thousand 9 hundred and seventy.
Performance	Normal	Normal	Normal	Normal
Redemption or Early Exercise Term	None	None	None	None
Convertible and Swap Term	None	None	None	None
Restricted Clause	None	None	None	None
Fund Utilization Plans	Get stable source of medium and long-term working capital to improve the Bank's capital structure	Get stable source of medium and long-term working capital to improve the Bank's capital structure	Get stable source of medium and long-term working capital to improve the Bank's capital structure	Get stable source of medium and long-term working capital to improve the Bank's capital structure
Ratio of the Registered Value of Issue plus Outstanding Balance against the Net Value after Settlement of the Year previous to the Year of Issue (%)	55.02%	55.02%	74.43%	65.12%
Whether Include Qualified Capital and the Corresponding Category	Tier 2	Tier 2	Tier 2	Tier 2
Credit Rating Agency, Date and Rating	Fitch Australia Pty Ltd. Taiwan Branch : A (tw), Mar. 1, 2018.	Fitch Australia Pty Ltd. Taiwan Branch : A (tw), Mar. 1, 2018.	Fitch Australia Pty Ltd. Taiwan Branch : A (tw), Mar. 1, 2018.	Fitch Australia Pty Ltd. Taiwan Branch: A (tw), Mar. 1, 2018.

Item	Subordinate debt (2014-03)	Subordinate debt (2018-01)	Subordinate debt (2018-02)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-Guo-No. 10200341440 (Dec. 10, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10600302770 (Dec. 26, 2017)	FSC, Jin-Kuan-Yin-Guo-No. 10702139240 (Jly. 23, 2018)
Date of Issuance	Dec. 03, 2014	Mar. 15, 2018	Sep. 12, 2018
Par	10 million	10 million	10 million
Place of Issuance and Trade	Republic of China	Republic of China	Republic of China
Currency	New Taiwan Dollars	New Taiwan Dollars	New Taiwan Dollars
Price of Issuance	100%	100%	100%
Total Amount	0.15 billion	1.5 billion	8 billion
Interest	Fixed rate 2.35%	Fixed rate 1.30%	Fixed rate 2.60%
Tenor	7 years, maturity date : Dec. 3, 2021	7 years, maturity date : Mar. 15, 2025	No expiration date
Senior / Subordinate debt	Subordinate debt	Subordinate debt	Subordinate debt
Guarantor	None	None	None
Trustee	None	None	None
Underwriter	Sino Pac securities	KGI securities, Yuanta securities	KGI securities, Yuanta securities, Taiwan Cooperative Securities, Capital Securities Corporation
Certified Lawyers	None	None	None
Certified Public Accountants	None	None	None
Certification Institution	None	None	None
Repayment	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity	After the expiration of 5 years after the issuance of this bond, if the ratio of the Bank's own capital to the risky assets after the redemption is calculated meets the minimum ratio required by the competent authority, the Bank may redeem it in advance after approval by the competent authority; Announcement on the 30th day before the return date, the interest payable plus the denomination, and all redemption.
Outstanding Balance	0.15 billion	1.5 billion	8 billion
Year 2008 Paid-in Capital	7.2 billion	10 billion	32.23 million
Year 2008 Total Stockholders' Equity	10.7 billion	32.23 million	8 thousand 2 hundred and fifty.
Performance	10.7 billion	13.6 billion	13.6 billion
Redemption or Early Exercise Term	Normal	Normal	Normal
Convertible and Swap Term	None	None	After the expiration of 5 years of the issuance, you must redeem the application in advance by applying to the competent authority for approval.
Restricted Clause	None	None	None
Fund Utilization Plans	Get stable source of medium and long-term working capital to improve the Bank's capital structure	Get stable source of medium and long-term working capital to improve the Bank's capital structure	No due date, no accumulation
Ratio of the Registered Value of Issue plus Outstanding Balance against the Net Value after Settlement of the Year previous to the Year of Issue (%)	65.12%	51.23%	Strengthen the capital structure and increase the capital adequacy ratio of the Bank
Whether Include Qualified Capital and the Corresponding Category	Tier 2	Tier 2	57.09%
Credit Rating Agency, Date and Rating	Fitch Australia Pty Ltd. Taiwan Branch: A (tw), Mar. 1, 2018.	Fitch Australia Pty Ltd. Taiwan Branch: A (tw), Mar. 5, 2018.	Tier 1

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

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



4.3 Financing Plans and Implementation

Up to Q1 of 2019, with respect to each uncompleted public issue or private placement of securities and financial debentures :

Year	Content of the plan	Date and approval document no. of FSC	The purpose of the plan	The accomplishment
2017	The 5th session of the 13th Board held on 2017.09.28 passed (note) the issuance of long-term subordinated bank debenture amounting to NT\$3 billion in 1 year approved on 2017.12.26	FSC, Jin-Kuan-Yin-Guo- No. 10600302770 (Dec. 26, 2017)	Pool up equity capital for bolstering capital structure	2018.03.15 issued a 7-year subordinate financial bond of 1.5 billion yuan, raised funds as a fund for loan allocation and investment business, and the remaining amount of 1.5 billion yuan was not implemented due to the urgency of non-issuance.

Note: BOK made an important announcement after the resolution by the Board.

5.1 Business Scope

5.1.1 Main areas of business operations

Business Item	Major Business
Deposit Business	New Taiwan dollar demand, time and check deposit transactions, remittances, bills collection, agency services, etc.
Wealth Management Business	With Respect to High Net Worth Customers, the Personnel of Wealth Management Provide the Financial Planning or Allocation of Assets Per Customers' Requirements and Offer Various Financial Products and Services Included in the bank Business Lines Approved by the Competent Authority.
Loan Business	Consumer Banking Product : Mortgage Loans, Simple Credit Loans, Operating Fund Financing, Individual Credit Loans, Tuition Loan etc. Corporate Banking Product : Operating Fund Financing, Loans for Capital Expenditure, Project Loans, Issuance of Local Letters of Credit, Letter of Credit Issuance, Export Negotiation, Guarantees and Acceptances etc.
Electronic Financial Business	Chip Combo Card, Internet Banking, Web ATM, Telephone Voice Service, Financial XML-based operating Platform for Collecting Banks, Domestic ATM Acquiring Affairs in Union Pay Card in Taiwan, Electronic Payment System of Kaohsiung City Treasury, Mobile Banking, Credit Cards and Credit Card Processing etc.
Foreign Exchange Business	Export, Import, Outward and Inward Remittance, Foreign Currency Deposit (and OBU Foreign Check Deposit), Foreign Currency Loans, and Payment Secured by Foreign Currency, Transaction of Derivative Financial Products.
Trust Business	Trust of Real Estate, Trust of Securities, Money Trust, Trust of Money Claim and Guaranteed Right of Object, Assumption of Executor and Administrator Of Estates of Deceased Person, Discretionary Investment Business, Act as Agent for Issuance, Transfer and Registration of Marketable Securities, and Payment and Distribution of Dividends, Interests and Bonus, Provide Advisory Service on Issuance and Offering of Marketable Securities, Subscription Business of Portfolio, Custody Services, Safe-Deposit Box Rental Service etc.
Investing Business	Transactions of Stocks, Beneficiary Certificates for Funds, Short-Term Bills, Preferred Stocks Transactions of Stocks, Beneficiary Certificates for Funds, Short-Term Bills, Preferred Stocks with Fixed Income, Negotiable Certificate of Deposit of the Central Bank, Government Bond, Corporate Bond, Beneficiary Securities and Asset-Backed Securities.
Gold Passbook Business	Gold passbook single purchase, resale, withdraw; regular fixed purchase, resale and inter-account transfers and other services.
Insurance Agency Business	Personal insurance agency business: life insurance, health insurance, injury insurance, annuity insurance, investment insurance, foreign currency non-investment insurance products. Property insurance agency business: residential fire insurance, commercial fire insurance, automobile (machine) vehicle mandatory and arbitrary liability insurance, injury insurance and health insurance, liability insurance products.

5.1.2 Weightings and Changes of Key Business Assets against Total Assets

Unit : NTS Million, %

Major Business	2018.12.31		2017.12.31	
	Amount	%	Amount	%
Total Assets	267,999	100.00	263,364	100.00
Consumer Banking Business	63,083	23.54	63,915	24.26
Corporate Banking Business	120,372	44.92	114,407	43.44

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

Unit : NTS Million, %

Item	2018.1.1-2018.12.31		2017.1.1-2017.12.31	
	Amount	%	Amount	%
Total Operating Revenue	5,886	100.00	5,179	100.00
Revenue on Loan Business	4,047	68.76	3,719	71.51
Revenue on Investing Business	1,402	23.82	1,058	20.34
Revenue on Wealth Management Business	336	5.71	303	5.83
Revenue on Deposit Business	21	0.36	21	0.404
Revenue on Foreign Exchange Business	22	0.37	21	0.40



5.1.4 Business Plan in 2019

I. Loan — Increase interest and fee income:

- (i) Increase the proportion of SME loans to local industries, fully supporting 5+2 industries and local industries.
- (ii) Provide one-stop service for quality construction loans to increase interest and service charge income.
- (iii) Provide mortgage projects for quality client groups, to maintain mortgage volume and increase the number of non-mortgages loan clients to increase interest spreads.

II. Deposits — Reduce funding cost:

- (i) Adjust deposit structures to reduce funding cost.
- (ii) Expand new sources of deposits and increase the number of corporate depositors.
- (iii) Increase demand deposits that are low in capital costs and increase the proportion of demand deposits.
- (iv) Divert deposits that are high in capital costs to foreign exchange deposits or held as financial planning commodities.

III. Foreign Exchange — Expand interest spread, increase revenue:

- (i) Promote foreign currency loan and international syndicated loans to increase overall revenue.
- (ii) Expand deposit base and increase the number of foreign currency deposit customers.
- (iii) Increase the amount of foreign currency deposits to support foreign currency loans and international syndicated loans with a view to reducing the cost of inter-bank lending.
- (iv) Increase the amount of foreign exchange business and income from commission & service fees of foreign currency.

IV. Non-interest income — Increase the proportion in total revenue:

(i) Increase low-risk commission income:

- A. Enhance wealth management clients, develop diverse wealth management products to reinforce sales development and increase overall revenue.
- B. Promote long-term premiums that are paid in installments, introduce new life insurance to different target groups.
- C. Promote trust services including real estate (house building) trust, real estate value trust, ever-rich trust, charitable trust and public officials property trust.

(ii) Improve performance of financial operations:

- A. Improve domestic and overseas stock, fund and bond operations.
- B. Stimulate transaction demand for clients' commercial foreign exchange and financial derivatives.
- C. Augment investments in securities denominated in foreign currencies and increase income.

V. Develop Digital Banking — Optimize Online Customer Service:

- (i) Continue to improve online banking services and increase the proportion of off-counter transactions.
- (ii) Improve overall mobile App service, strengthen safety control of mobile transaction.
- (iii) Collaborate with other industries to introduce new payment methods to extend the exposure of e-banking.
- (iv) Launch digital banking service in response to the trend of technology development in digital financing.

VI. Strengthen Legal Compliance — Improve operational efficiency and implementation of regulations:

- (i) Propose complete plans for adequate compliance with rules and regulations and improve compliance effectiveness.
- (ii) Implement operations regarding monitoring the risk of regulatory changes to prevent breaching of the law.
- (iii) Commit to the implementation of the most up-to-date AML/CFT regulations, CRS regulations, and regulations regarding PIMS and GDPR. Reinforce legal compliance training of our personnel, and establish a law-abiding corporate culture.

VII. Internal Control — Balance between risk control and operational efficiency:

- (i) Supervisors in each department should reinforce their assistance and monitoring of their branches to bolster the effectiveness of the second line of defense.
- (ii) Continue to strengthen the three line of defense and implement self-auditing and fraud prevention. The general audit mechanism review will remain to strengthen the internal control system and simplify operating procedures.

5.1.5 Market Analyses

I . Regions Where the bank Operates

The bank focuses primarily on the domestic market. Until the end of 2018, the bank has 40 business units (exclusive of OBU), 27 of which are located in Kaohsiung City, 1 in Pingtung City, Tainan City, and Hsinchu City, 2 in New Taipei City, and Taoyuan City, 3 in Taichung City and Taipei City.

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

In the face of excessive competition in Taiwan's financial market, domestic interest rates have remained at a low level, and market competition has become more intense, resulting in limited growth of domestic profit sources; in order to implement the supervisory requirements of the competent authorities for the prevention of money laundering and anti-terrorism mechanisms and information security control To increase the operating costs gradually; the opening of the "pure online banking" license is expected to become more intense in the financial market. With the rapid development of digital technology in the world and the challenge of Bank 4.0 "Finance is always there, banks are no longer?" , the Bank launched a digital financial business development plan through a comprehensive promotion of the digital transformation strategy, which was promoted in three phases, including promotion. And optimize personal online banking, corporate financial network and mobile banking APP service functions; expand the function of CRM system and develop basic big data analysis; develop big data analysis and combine AI artificial intelligence application, etc., and adjust with Fintech's development.

III . Competitive edge, factors favorable and unfavorable for development and responses

BOK is bound to confront the following under the changeable global economic situation:

(i) Favourable Factors

- A. The Kaohsiung City Government holds 43.13% of the bank ownership interest, providing stable management as well as consistent sources of deposit and loan businesses.
- B. The bank has capitalized on the distinct industry characteristics of the Kaohsiung region, and developed its SMEs lending for many years. It has accumulated a customer base that generates consistent revenues, and a loan portfolio that grows progressively year after year. The bank is well-positioned in the local market.
- C. The bank is actively developing the wealth management business for higher fee-based income and diversifies earnings.
- D. The bank has exerted its trust professionalism to successfully launch the specialty trust businesses using the social assistance public welfare trust as the foundation to promote the trust needs to the general everyday-life level, and to reduce the threshold of trust to actively promote trust inclusion.
- E. The Bank is the only Bank headquartered in Kaohsiung City tightly integrated with the economic development of the local businesses as well as the financial needs of the social community. We will continue to exert the local financial responsibility and municipal cooperation.
- F. Taiwan has entered the dual social problem of population aging and childlihood and the reform of the military retreat, and the demand for investment and wealth management has increased.

(ii) Unfavourable Factors

- A. No overseas branch has been established yet, which deprives the Bank of the opportunity for development of business with Taiwan business persons and business development.



- B. Keen competition in the banking industry in Taiwan and the products and services provided are highly homogeneous.
- C. Globalization of finance and banking and cross-sector competition of the financial holding firms takes away the market share previously gained by the medium and small banks.
- D. Global economic environment is unfavorable and the financial sector is under undue pressure.
- E. In response to the implementation of related measures such as anti-money laundering and anti-terrorism, the transfer and control of funds for high-asset customers will be more stringent, and the customer's mentality will tend to be conservative.

(iii) Response Measures

- A. Increase the size of capital, strengthen the competitiveness and risk-bearing capacity, and create revenue.
- B. Continue enhancing upgrading the proportion of loans to SMEs, fostering local SMEs, increasing the bank's income and creating a win-win situation.
- C. Integration of marketing resources with a focus on product development and pursuit of cross-marketing. Concentrate on key customers in business transactions to enhance the overall contribution value of customers.
- D. The ongoing development of digital banking technologies compelled the Bank to strengthen its staff in the mindset of digital banking and the ability to perform so as to upgrade the operation performance and competitive power in the market.
- E. Pursuit of a positive strategy in investment for a higher return in consideration of a proper balance between risk and return for the dynamic allocation of assets for higher return.
- F. Pursuit of market segmentation and management of customer asset positions by cluster and category with a focus on key customers of wealth management. Provide customized integrated financial and asset planning for customers.

5.1.6 Overview of Research and Business Development of Financial Products

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

(i) Scale of Major Financial Products

Unit : NT\$ Million

Major Financial Products	2018.12.31 Balance	2017.12.31 Balance
Loans to SMEs	56,929	56,921
Tuition Loan	5,150	5,379
Simple Credit Loans	556	641
Specific Money Trusts Earmarked for Investing Foreign and Domestic Securities	19,179	17,840
Trust Assets	23,970	20,938

- (ii) New Business Units : On January 23, 2018, the Insurance Agent Department of BOK was established, merging the subsidiaries "Kaohsiung Bank General Insurance Agent Co., Ltd." and "Kaohsiung Bank Life Insurance Agent Co., Ltd." .

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

(i) Expenditure of R & D

Unit : NT\$ Million

Year	2018	2017
Amount	0.67	0.65

(ii) Results of R & D

Business Item	Financial Products
Loan Business	1.Launched New Caoya region land sale project loans. 2.Housing Endowment Leisure Living for the Elderly project loans. 3.Urban danger and old buildings accelerate the reconstruction of loans. 4.LME metal commodity warehouse receipt financing loan.
Digital banking operation	1. Establishing BOK payment ecosystem and providing convenient customer services. The Bank's development of Fintech's financial technology is as follows: (1) Through the FISC Taiwan Pay QR Code platform, the Mobile Bank App has added Taiwan's Pay QR Code transfer, payment and consumption deduction functions to expand the mobile banking function. (2) Cooperate with different industries, add "LINE Pay iPASS" and JKOPAY to handle Account link account link function, in addition to binding the Bank's credit card, and can provide complete link account deduction, stored value, transfer, and withdrawal. Wait for more yuan services. Among them, the " LINE Pay iPASS " linked account business is the first batch of banks in the industry to lead the majority of banks. Through the new services, customers will have more convenient and complete payment tools to create a quality payment experience. 2. Consolidate existing Taiwan, foreign currency deposit statements, electronic bank transaction statements, gold passbook statements, fund statements and loan statements as a single consolidated statement, which can save duplicate shipping costs, and On the comprehensive statement, we will effectively carry out the common marketing of various commodities of the Bank. 3. In response to the digital financial trend, optimize the Bank's mobile banking system architecture, and enhance related service functions. At the same time, in order to strengthen the user experience, new customers can obtain fingerprints, fingerprint identification, face recognition, and direct identity authentication to enable financial services. Closer to customer needs. 4. Launched a new "BOK e-Link APP" to create more convenient mobile banking services, provide more types of trading functions, convenient operation interface and architecture, and support a variety of mobile devices. 5. BOK exclusively installed the "Convenient Personal Internet Bank" and "Convenient Internet ATM" for the blinds as to make banking service more friendly for the handicapped.

(iii) Future Plans of R & D

Unit : NT\$ Million in 2018.3.31

Plans of R & D	Progress	Fees of R& D	Time of Work-Down	Key Point of Success
Installation of the backup connection network for Internet transactions	Under planning	5	2019.12.31	Installation of online transaction automatic detecting orientation mechanism for backup purpose.
Centralization of server management	Under planning	4	2019.12.31	Retention of log for audit management.
Advanced prevention of continued attacks (APT)	Under planning	8	2019.12.31	Conforming to information security requirement.
Prevention of phishing websites	Under planning	3	2019.12.31	Conforming to information security requirement.
Data warehouse and CRM management system	Passed by the 1st session of the Information and Security Advocacy Committee in 2018 (2018.3.21) for reference filing.	19.8	2019.12.31	Fortify BOK in digital banking operation with proper installation and use of the CRM system of the Bank, provide information on contribution of customers to improve the profit status of the Bank.

5.1.7 Plans for Long-term and Short-term Business Development

I .Short-term Business Development : Please refer to page 64 "5.1.4 Business Plan for 2019" .

II . Long-Term Development : Please refer to page 6 "1.3 Development Strategy in Future" .

5.2 Human Resources

5.2.1 Information of Employees for the Past Two Years & Up to Mar. 2019

FY		Item	2019.3.31	2018	2017
Number of Employees (Person)			1,007	1,018	955
Average Age (Years old)			46.82	47.00	47.74
Average Years of Service (Year)			19.25	19.45	20.60
Level of Education (%)	Ph.D.		0.2	0.29	0.21
	Masters		17.38	16.80	16.21
	Bachelor' s Degree		74.18	74.75	74.76
	Senior High School		7.54	7.47	7.96
	Below Senior High School		0.7	0.69	0.84
Name of Employees With Certificates, Licenses and Qualifications (person)	Securities Investment Analyst		4	4	4
	Securities Specialist		115	117	93
	Senior Securities Specialist		266	268	246
	Securities Investment Trust and Consulting Professionals		207	208	194
	Analysts of Futures Trading		1	1	1
	Futures & trust fund sale representatives		123	124	121
	Bill Finance Specialist		221	224	224
	Trust Supervisor		7	8	8
	Trust Manager		135	138	188
	Trust Operations Personnel		756	757	718
	Basic Test for Bank Internal Control		755	757	733
	General Insurance Agency		4	4	3
	Insurance Agency		8	3	6
	Life (Investment Link) Insurance Sales Agents		850	856	859
	Non-Life Insurance Sales Agents		657	667	671
	Certified Public Accountants		1	1	1
	Derivative finance (structural goods) sales staff		447	406	380
	Financial digital power knowledge test passed		39	—	—
	Anti-money laundering and anti-terrorism professionals qualified for testing		18	—	—
	Financial personnel risk management basic ability test qualified		4	—	—

5.2.2 Employees' Further Education and Trainings

- I . For the purpose of encouraging employees to undertake further studies in off-work hours, the Bank has a policy of reimbursing half of the tuition fees for any employees undertaking further studies relevant to their work at universities, colleges or graduate schools of universities. The Bank has sponsored 9 person-times in FY 2018.
- II . In order to advance the professionalism and skills of the bank 's employees, develop future human resources in all kinds of business and with the aim of improving employee quality and enhancing our service quality, the Bank continually plan for the various training programs from time to time. Details of training programs for FY 2018 are as follows:
 - (i)Internal Training (Include Commissioned Training): In 2018, 79 class-times of were offered and a total of 3,321 person-times attended the training, which covered the various fundamental sales training courses; advance finance and sales courses; regulations educational courses; new financial products (and promotion) courses and financial management and insurance or marketing techniques; as well as seminars and leadership management course.

- (ii) External Training : Due to business requirements, the bank sent employees from time to time to attend the relevant training programs organized by other related educational training institutions. In FY 2018, we have sent a total of 784 person-times to participate in such training programs.
- (iii) Overseas Educational Visits / Seminar : In FY 2018, the bank sent 15 person-times abroad to undertake educational visits.
- (iv) To fulfill the corporate governance system and upgrade directors' / supervisors' professional intelligence, the bank sent 13 directors including Yun-Peng Chang to attend the corporate governance or financial professional programs in 2018, totaling 53 person-times.

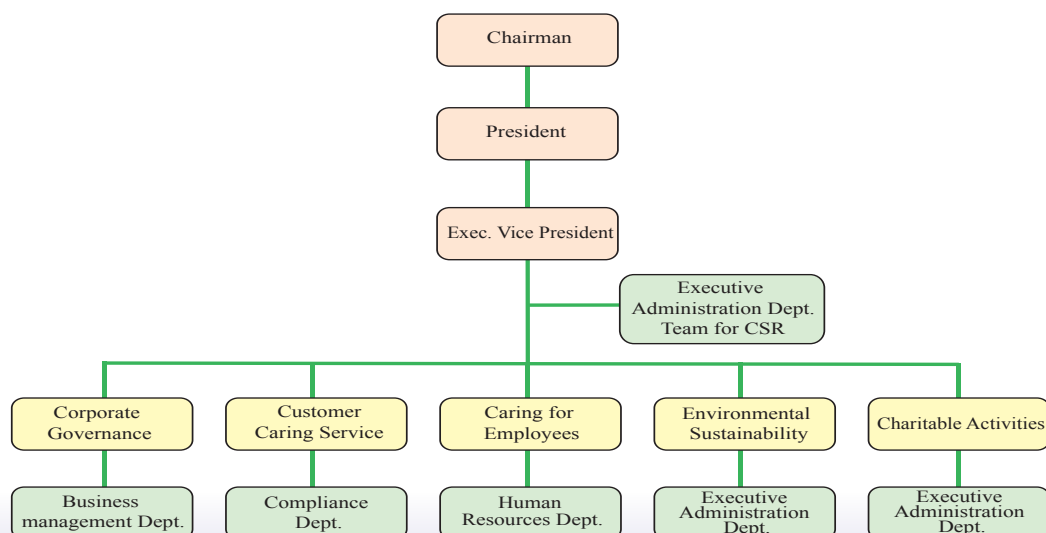
5.3 Social Responsibility and Moral Behavior of the Bank

5.3.1 Corporate Social Responsibility Governance Structure

For the proper performance of corporate social responsibility, BOK has established the “Corporate Social Responsibility Committee” . The Chairman of the Board acts as the Director-General of the committee and the President acts as the Deputy Director-General. The Vice President acts as the Supervisor and the function heads of the corporate headquarters are members of the committee. There is a “CSR Compilation Team” under the committee. The Executive Administration Department is the Secretariat and is responsible for administering the “CSR Compilation Team” . The committee consists of the following functional groups:

- I. The “Corporate Governance” Group: led by the Business Management Department for the advocacy and pursuit of corporate governance.
- II. The “Customer Concern” Group: led by the Compliance Department for the advocacy and pursuit of matters related to customer concerns.
- III. “Employee Care” Group: led by the Human Resources Department for the advocacy and pursuit of matters related to human rights and employee care.
- IV. “Sustainability” Group: led by the Executive Administration Department for the advocacy and pursuit of energy saving and carbon reduction, environmental protection and the sustainability of resources and energy.
- V. “Social Charity” Group: led by the Executive Administration Department for the advocacy and pursuit of social charity and concern, community development, support of art and cultural activities and sports.

Each Group shall perform their assigned duties and keep track of the result within the scope of corporate social responsibility, and compile the results into the “Corporate Social Responsibility Report” at the end of each year to report to the Board.





5.3.2 Corporate Social Responsibility Operation and Implementation

2018 events of the BOK Social Welfare and Charity Foundation

I. Spending on social welfare

Item	Name of event (or Beneficiary)	Content of activity and sponsorship
1	Taiwan Fund for Children and Families.	Adopted 10 children from misfortunate families in Kaohsiung City and each will receive NT\$1,000/month. The total donation is NT\$10,000/month.
2	The "Kaohsiung Unified Scholarship Scheme" . (Second semester of 2017 school year)	Supports 25 students from misfortunate families, each receive NT\$10,000/term. The total donation is NT\$250,000/ term.
3	The "No discrimination of Love – Happy New Years for the Misfortunate Children" organized by the Social Affairs Bureau of Kaohsiung City Government.	Donation to 392 misfortunate children in 17 social welfare centers and each received a red packet with NT\$600. The total donation is NT\$235,200.
4	Donation to Rising Foundation in the fund raising of "Showering Truck to Your Door" service for the (handicapped) elderly living single and subsidy for the hearing impaired students" .	The total donation is NT\$50,000.
5	Donated by the Genesis Social Welfare Foundation, the "Planter Double Track Service and the 28th Cold Man's Full 30" event organized by the Foundation.	The total donation is NT\$20,000.
6	Purchase coupons from Pxmart for the "Hand-in-hand for Love and Home Delivery with warmth – food coupon services for the misfortunate families" .	Donation to 72 misfortunate families with NT\$1,500 coupon for shopping at Pxmart. The total donation is NT\$108,000.
7	Donation to Kaohsiung City Council in holding the Kaohsiung Federation of Charity Organizations campaign in "Warm Giving in Wintry Days in Kaohsiung" .	The total donation is NT\$150,000.
8	Donated by the Foundation of the Social Welfare Foundation, "the 6th Good Days" .	The total donation is NT\$20,000.
9	Donated to the Kaohsiung City Government Social Affairs Bureau to entrust the Kaohsiung City Social Charity Association, the "1818 Annual Kaohsiung City Fengshan Street Friends Service Center "Caixin Home" Service Plan".	The total donation is NT\$30,000.
10	Donated to the corporate charity Kaohsiung City Friends of the Weak Family Friends Charity Association, "Caring for the Weak, You, Me, 2017" charity promotion activities.	The total donation is NT\$20,000.
11	The "Kaohsiung Unified Scholarship Scheme" . (First semester of 2018 school year)	Supports 27 students from misfortunate families, Each high school level is NT\$10,000/term, and the national middle school is NT\$5,000/term. The total donation is NT\$250,000/ term.

II. Spending on charity events:

Item	Name of event (or Beneficiary)	Content of activity and sponsorship
1	The "2018 1 st Blood Donation Campaign" held at the Hanshin Arena Shopping Plaza in Mar. 10, 2018.	Blood donation campaign with collection of 251 bags of blood.
2	The "2018 1 st Blood Donation Campaign" held at the Hanshin Arena Shopping Plaza in Sep. 8, 2018.	Blood donation campaign with collection of 184 bags of blood.
3	Kaohsiung City Care Earth Association.	Handling the "Healthy Eating, Low Carbon Environmental Parenting Seminar".

III. Art and Sports expenditure :

Item	Name of event (or Beneficiary)	Content of activity and sponsorship
1	Kaohsiung City Shanghe Opera Alice Group.	Sponsored the "General's Bereagle" drama at the Taipei City Stage and the "Hell Workers" drama at the Kaohsiung Dadong Cultural Center, The total sponsor is NT\$86,000.

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

Unit : NT\$ Thousand, person

Item	Dec. 31, 2018	Dec. 31, 2017	The difference comparing with the previous year
The number of employees that are not in the manager position (Person)	815	761	54
The annual employee average benefit expenses (NT\$ Thousand)	1,162	1,166	(4)

5.5 Information Technology and Computer Facility

5.5.1 The Core Hardware / Software and Maintenance

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

5.5.2 Emergency Backup and Security Protection

- I . Developing and testing systems function not only for implementation and testing on a daily basis but also the backup systems for operating systems, such as operation server and disk. The two cryptosystem servers are the backup for the cryptosystem systems of operation hardware.
- II . The Bank conduct backup drill for operation mainframe, communication control server, and cryptosystem systems on a six-month basis. As to backup drill for disk storages, the Bank has it once each year.
- III . The Bank entered into a remote backup contract with FISC, which requires us to conduct remote backup drills twice a year in IBM.
- IV . Signed an agreement with IBM for NTD server, foreign exchange server and branches system disk drive asynchronous remote backup service. The updated data copies are stored in IBM backup room through fiber optic lines.
- V . To ensure the IT facility is functioning well and the safety of employees, the Bank impose entrance control in the IT building and have a generator, two sets of uninterruptible power system, and two sets of air conditioning machines. The Bank also conduct a fire drill every six months.

5.6 Labor Relations

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

- I . Employees' Benefits: In order to ensure better living for the Bank' s employees and encourage their working spirit, they are eligible for performance incentives and bonuses, group insurance, subsidies of credit points for further education, welfare funds, and scholarships for their children' s education.
- II . Retirement: The Bank conduct retirement of bank employees in accordance with the "Rules Governing Retirement, Pension and Layoff of Employees of Bank of Kaohsiung" , and contribute monthly Workers' Retirement Reserve Funds pursuant to the Labor Standard Act and provide the laborers' retirement pension on a monthly basis pursuant to the Labor Pension Act.
- III . Labor-Capital Agreement: The Bank has an agreement with the Bank of Kaohsiung Workers Union for protecting labor rights and ensuring the relationship is in harmony.
- IV . Fulfillment of Employee Rights: The Bank has rules to clearly specify rights and obligations between the employer and employees. Those rules stipulate promotion, assessment, position rotation, reward, penalty and staff remuneration respectively for securing rights of employees.

5.6.2 Loss Arising from Labor Disputes in the Past Two Years and Up to Mar. 2019 :

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

Ruling of improper labor action under 2017 Lao-Cai-Zi No. 2: The Ministry of Labor punished BOK with a fine of NT\$30,000 and NT\$60,000, respectively. BOK disagreed with the ruling and filed an administrative remedy, which is still in proceeding.

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

As of the end of Mar. 2019, there were 1 civil law suits and 3 administrative appeals. These cases are in the review process of the competent authority. The Bank seeks to justify its position as provided by law and will respond to subsequent judgments or rulings.

5.6.4 Violations Against the Labor Standards Act: None.



5.7 Important Contracts

Mar. 31, 2019

Nature of Contract	Contracting Party	Duration of Contract	Major Contents	Restriction Clause
Outsourcing Contract	The Bank and the Financial Information Service Co., Ltd.	From : Dec. 01, 2008 To : Dec. 31, 2019	Credit card service	None
Outsourcing Contract	The Bank and Taiwan Yisi Information Technology Co., Ltd.	From : Apr. 01, 2017 To : Mar. 31, 2020	Credit card data processing	None
Outsourcing Contract	The Bank and Taiwan FamilyMart Co., Ltd.	From : Aug. 01, 2017 To : Dec. 31, 2019	Collection of credit card accounts	None
Outsourcing Contract	The Bank and Hi-Life International Co., Ltd.	From : Nov. 17, 2017 To : Nov. 17, 2019	Collection of credit card accounts	None
Outsourcing Contract	The Bank and OK mart Co., Ltd.	From : Jan. 01, 2019 To : Dec. 31, 2019	Collection of credit card accounts	None
Outsourcing Contract	The bank and An Feng Enterprise Corporation	From : Feb. 01, 2015 To : Jan. 31, 2020	ATM service	None
Outsourcing Contract	The bank and Li Pao Security Corporation	From : Feb. 01, 2017 To : Jan. 31, 2020	Cash escort service	None
Outsourcing Contract	The bank and Li Pao Security Corporation	From : Feb. 01, 2017 To : Jan. 31, 2020	Cash delivery Service	None
Outsourcing Contract	The bank and Chunghwa Post Co., Ltd., Taipei Post Office.	From : Jan. 01, 2018 To : Dec. 31, 2019	Printing, packing and mailing of notice of tuition loan, account statement of specific money trusts earmarked for investing foreign and domestic securities, specific money trust investment domestic and foreign securities trading confirmation, interest income and salary withholding certificate, Public housing loan interest payment list, account statement of deposit and gold passbook.	None
Outsourcing Contract	The bank and CHUNG HWA Express Corp.	From : Dec. 17, 2016 To : Dec. 16, 2019	The Securities and other document are delivered among Chung Ho Branch, Ta Chih Branch, Tai Chung Branch, Gangshan Benjhou Branch, Taipei Branch, Tai Nan Branch, Zhongli Branch and Banciao Branch.	None
Contract for the Kaohsiung City Government treasury	The bank and The Bureau of Finance of Kaohsiung City Government	From : Feb. 09, 2000 To : Jun. 30, 2020	The bank was entrusted to be the agent of Kaohsiung City Treasury	None
Contract for the national treasury	The bank and the Central Bank of China (CBC)	as of Feb. 01, 2011	The bank was entrusted to be the agent of the National Treasury	None
Contract for collection of Local tax	The bank and Bank of Taiwan	From : Jul. 01, 2010 To : Jun. 30, 2020	The bank was entrusted to be the collection agent of various tax payments levied by various municipal cities, counties/cities, townships/districts.	None
Contract for collection of national tax	The bank and the Central Bank of China (CBC)	as of Jul. 01, 2010	The bank was entrusted to be the collection agent of national tax.	None
Contract for Kaohsiung Municipal Treasury Business	The bank and 27 banks including Bank of Taiwan and Farmers' Association.	as of Jan. 01, 2011	The bank re-entrusted the Kaohsiung Municipal Treasury Business to 28 banks including Bank of Taiwan and Farmers' Association.	None
Contract for collection of Local tax	The bank and Land Bank of Taiwan	as of Jul. 01, 2010	The bank was entrusted to be the collection agent of local tax levied by the Kinmen County Government.	None
Contract for collection of municipal tax and fee of Taipei City	The bank and Taipei Fubon Bank	as of Jul. 01, 2010	The bank was entrusted to be the collection agent of municipal tax, non-tax and fee of Taipei City.	None
Contract for collection of municipal tax and fee of Kaohsiung City	The bank and 33 banks including Bank of Taiwan.	as of Jul. 01, 2010	The bank entrusted to be the collection agent of municipal tax, other income and fee of Kaohsiung City.	None
Contract for electronic payment	The bank and Kaohsiung City Government	From : Jan. 01, 2017 To : Dec. 31, 2020	The bank was entrusted to be the agent of electronic payment system of Kaohsiung City Treasury	None
Contract for collection of traffic fine	The bank and Transportation Bureau, Kaohsiung City Government	as of Jan. 01, 2017	The bank was commissioned to close cases immediately upon collection of "traffic fine".	None
Contract for collection of vehicles fuel charge	The bank and Kaohsiung City Motor Vehicles Office	From : Jan. 01, 2018 To : Dec. 31, 2019	The bank was entrusted to collect for vehicle fuel charge.	None
Contract for district treasury	The bank and Kaohsiung Taoyuan District and 3 District Office	From : Jul. 01, 2015 To : Jun. 30, 2020	The bank was entrusted to be the collection agent of Kaohsiung Taoyuan District and 3 District Treasury.	None
Contract for Kaohsiung Taoyuan District and 3 District treasury	The bank and Kaohsiung Taoyuan District and Fengshan District Farmers' Association	From : Jul. 01, 2015 To : Jun. 30, 2020	The bank was entrusted to be the delegate agent of Kaohsiung Taoyuan District and 3 District Treasury.	None

5.8 Information on Securitization Products Issued in FY 2018 Permitted under "Financial Assets Securitization Provision" or "Real Estate Securitization Provision": None.

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

6.1.1. Brief Balance Sheets and Comprehensive Income Statements

Unit : NT\$ Million

Items	FY	Financial Information of Recent Five Years				
		Dec. 31, 2013	Dec. 31, 2014 (re-compilation)	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Cash & cash equivalents, Due from the CBC and other banks		26,549	27,279	18,353	14,567	17,432
Financial assets at fair value through profit or loss		1,590	10,976	3,880	3,986	1,277
Available-for-sale financial assets		19,250	26,141	36,837	31,298	53,841
Bills and bonds purchased under agreements to resell		3,461	13,385	20,065	3,349	9,225
Accounts receivable—net		758	855	1,027	1,150	1,152
Current income tax assets		20	26	24	48	48
Discounts and loans—net		178,261	182,883	165,944	175,616	175,860
Held-to-Maturity financial assets		0	2,746	11,736	21,610	0
Equity method' s investments—net		0	0	0	0	0
Other financial assets—net		1,566	1,448	1,824	1,199	1,102
Property and equipment—net		2,744	2,979	2,945	2,907	2,940
Intangible assets—net		41	65	69	67	121
Deferred income tax assets—net		134	173	230	193	215
Other assets—net		59	69	117	184	151
Total assets		234,433	269,025	263,051	256,174	263,364
Due to CBC and other banks		15,025	9,519	9,155	8,892	5,923
Funds borrowed from CBC & banks		0	0	0	0	0
Financial liabilities at fair value through profit or loss		6	23	20	1	1
Bills and bonds sold under agreements to repurchase		68	61	1,071	1,102	5,367
Accounts payable		2,747	2,872	2,775	3,673	3,660
Current income tax liabilities		10	5	53	8	10
Deposits and remittances		198,690	236,928	229,740	225,470	229,749
Bonds payable		6,000	7,000	7,000	4,000	4,000
Other financial liabilities		139	178	175	12	1
Provisions		855	968	1,036	426	367
Other liabilities		144	150	124	125	99
Total liabilities	Before distribution	223,684	257,704	251,149	243,709	249,177
	After distribution	223,693	257,693	251,138	244,311	249,308
Equity Attributable to Shareholders of the Parent						
Capital	Before distribution	7,210	7,404	7,789	8,232	10,032
	After distribution	7,404	7,789	8,232	8,232	10,403
Capital surplus	Before distribution	2,017	1,872	1,872	1,873	1,658
	After distribution	1,872	1,872	1,872	1,658	1,487
Retained earnings	Before distribution	1,608	2,028	2,214	2,404	2,442
	After distribution	1,550	1,654	1,782	2,017	2,111
Other equity		(86)	17	27	(44)	55
Treasury Stock		0	0	0	0	0
Non-controlling interests		0	0	0	0	0
Total equity	Before distribution	10,749	11,321	11,902	12,465	14,187
	After distribution	10,740	11,332	11,913	11,863	14,056

Note: The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2013~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2016~2017.

II. Brief Balance Sheets (Individual)

Unit: NT\$ Million

Items	FY	Financial Information of Recent Five Years				
		Dec. 31, 2013	Dec. 31, 2014 (re-compilation)	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Cash & cash equivalents, Due from the CBC and other banks		26,549	27,279	18,353	14,567	17,432
Financial assets at fair value through profit or loss		1,591	10,976	3,880	3,986	1,277
Available-for-sale financial assets		19,250	26,141	36,837	31,298	53,841
Bills and bonds purchased under agreements to resell		3,461	13,385	20,065	3,349	9,225
Accounts receivable—net		769	866	1,048	1,159	1,163
Current income tax assets		20	26	24	48	48
Discounts and loans—net		178,261	182,883	165,944	175,616	175,860
Held-to-Maturity financial assets		0	2,746	11,736	21,610	0
Equity method' s investments—net		59	61	71	82	53
Other financial assets—net		1,566	1,448	1,824	1,199	1,102
Property and equipment—net		2,744	2,978	2,945	2,907	2,940
Intangible assets—net		41	64	68	67	121
Deferred income tax assets—net		134	173	230	193	215
Other assets—net		57	67	115	182	149
Total assets		234,502	269,093	263,140	256,263	263,426
Due to CBC and other banks		15,025	9,519	9,155	8,892	5,923
Funds borrowed from CBC & banks		0	0	0	0	0
Financial liabilities at fair value through profit or loss		6	23	20	1	1
Bills and bonds sold under agreements to repurchase		68	61	1,071	1,102	5,368
Accounts payable		2,744	2,864	2,767	3,663	3,653
Current income tax liabilities		6	0	46	0	9
Deposits and remittances		198,765	237,009	229,844	225,577	229,818
Bonds payable		6,000	7,000	7,000	4,000	4,000
Other financial liabilities		139	178	175	12	1
Provisions		855	968	1,036	426	367
Other liabilities		145	150	124	125	99
Total liabilities	Before distribution	223,753	257,772	251,238	243,798	249,239
	After distribution	223,762	257,761	251,227	244,400	249,370
Equity Attributable to Shareholders of the Parent						
Capital	Before distribution	7,210	7,404	7,789	8,232	10,032
	After distribution	7,404	7,789	8,232	8,232	10,403
Capital surplus	Before distribution	2,017	1,872	1,872	1,873	1,658
	After distribution	1,872	1,872	1,872	1,658	1,487
Retained earnings	Before distribution	1,608	2,028	2,214	2,404	2,442
	After distribution	1,550	1,654	1,782	2,017	2,111
Other equity		(86)	17	27	(44)	55
Treasury Stock		0	0	0	0	0
Total equity	Before distribution	10,749	11,321	11,902	12,465	14,187
	After distribution	10,740	11,332	11,913	11,863	14,056

Note: The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2013~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2016~2017

III. Brief Balance Sheets (Single)

Unit : NT\$ Million

Items	FY	Financial Information of Recent Year
		Dec. 31, 2018
Cash and cash equivalents, Due from the CBC and call loans to banks		15,803
Financial assets at fair value through profit or loss		384
Financial assets at fair value through other comprehensive income		18,366
Investments in debt instruments at amortized cost		41,342
Securities purchased under resell agreements		5,243
Receivable, net		2,174
Current income tax assets		19
Discounts and loans, net		181,244
Other financial assets, net		41
Properties and equipment, net		2,888
Intangible assets, net		119
Deferred income tax assets		259
Other assets, net		117
Total assets		267,999
Due to the central bank and other banks		8,695
Financial liabilities at fair value through profit or loss		200
Securities sold under repurchase agreements		10,431
Payables		4,106
Current income tax liabilities		0
Deposits and remittances		223,286
Bonds payables		6,300
Other financial liabilities		0
Provisions		433
Other liabilities		103
Total liabilities	Before distribution	253,554
	After distribution	—
Capital	Before distribution	10,403
	After distribution	—
Capital surplus	Before distribution	1,487
	After distribution	—
Retained earnings	Before distribution	2,506
	After distribution	—
Other equity		49
Treasury Stock		0
Total equity	Before distribution	14,445
	After distribution	—

Note : The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2018

IV. Brief Statements of Comprehensive Income (Consolidation)

Unit: NT\$ Million

FY Items	Financial Information of Recent Five Years				
	2013	2014 (re-compilation)	2015	2016	2017
Interest income	4,159	4,614	4,780	4,402	4,389
Less: Interest expenses	(1,890)	(2,146)	(2,298)	(1,879)	(1,854)
Net interest income	2,269	2,468	2,482	2,523	2,535
Net revenues other than interest	668	932	833	841	757
Net revenue	2,937	3,400	3,315	3,364	3,292
Allowance for credit loss and loss on guarantees	(401)	(691)	(371)	(364)	(590)
Operating expenses	(2,057)	(2,199)	(2,291)	(2,295)	(2,203)
Income before tax — operating department	479	510	653	705	499
Income tax (expense) benefit	(60)	(1)	(62)	(57)	(47)
Net income — operating department	419	509	591	648	452
Net income — non-operating department	0	0	0	0	0
Net income (loss)	419	509	591	648	452
Other comprehensive income for the period(net of income tax)	(212)	81	(21)	(96)	72
Total comprehensive income for the period	207	590	570	552	524
Net income attributable to: Shareholders of the parent	419	509	591	648	452
Net income attributable to: Minority interest	0	0	0	0	0
Total comprehensive income for the period attributable to: Shareholders of the parent	207	590	570	552	524
Total comprehensive income for the period attributable to: Minority interest	0	0	0	0	0
Earnings per share	0.57	0.66	0.72	0.79	0.45

Note: The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2013~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2016~2017.

V. Brief Statements of Comprehensive Income (Individual)

Unit: NT\$ Million

FY Items	Financial Information of Recent Five Years				
	2013	2014 (re-compilation)	2015	2016	2017
Interest income	4,159	4,614	4,780	4,402	4,389
Less: Interest expenses	(1,890)	(2,146)	(2,299)	(1,880)	(1,855)
Net interest income	2,269	2,468	2,481	2,522	2,534
Net revenues other than interest	645	897	783	788	738
Net revenue	2,914	3,365	3,264	3,310	3,272
Allowance for credit loss and loss on guarantees	(401)	(691)	(371)	(364)	(590)
Operating expenses	(2,043)	(2,174)	(2,251)	(2,255)	(2,191)
Income before tax – operating department	470	500	642	691	491
Income tax (expense) benefit	(51)	8	(51)	(43)	(39)
Net income – operating department	419	508	591	648	452
Net income – non-operating department	0	0	0	0	0
Net income (loss)	419	508	591	648	452
Other comprehensive income for the period(net of income tax)	(212)	82	(21)	(96)	72
Total comprehensive income for the period	207	590	570	552	524
Earnings per share	0.57	0.66	0.72	0.79	0.45

Note: The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2013~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2016~2017.

VI. Brief Statements of Comprehensive Income (Single)

Unit : NT\$ Million

FY Items	Financial Information of Recent Years	
	2018	
Interest income	4,962	
Less: interest expense	(2,330)	
Net interest income	2,632	
Net revenues other than interest	868	
Total net revenues	3,500	
Bad-debt expenses and provision for losses on commitments and guarantees	(718)	
Operating expenses	(2,294)	
Income before income tax	488	
Income tax benefit (expense)	(8)	
Net income for the period – operating department	480	
Net income for the period – non-operating department	0	
Net income for the period	480	
Other comprehensive income, net of tax	(259)	
Total comprehensive income for the period	221	
Earnings per share (dollars)	0.46	

Note : The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2018.

6.2 Financial Analysis of Recent Five Years

6.2.1 Financial Analysis

I . Financial Analysis (Consolidation)

Unit: NT\$ Million/%

Items		FY	Financial Analysis of Recent Five Years				
			2013	2014 (re-compilation)	2015	2016	2017
Operating Ability	Loans to deposits ratio (%)		89.97	77.68	72.95	78.65	77.53
	Ratio of NPL (%)		0.60	0.45	0.48	0.45	0.51
	Interest expenses to average deposit balances (%)		0.85	0.84	0.84	0.73	0.71
	Interest income to average loan balances (%)		2.15	2.23	2.27	2.13	2.10
	Total assets turnover ratio (times)		0.01	0.01	0.01	0.01	0.01
	Operating revenue per employee		3.06	3.58	3.50	3.57	3.39
	Earnings per employee		0.44	0.54	0.62	0.69	0.47
Profitability	Return on tier 1 capital (%)		4.75	4.91	5.98	6.14	3.97
	Return on total assets (%)		0.18	0.20	0.22	0.25	0.17
	Return on equity		3.94	4.61	5.09	5.32	3.39
	Net profit margin (%)		14.27	14.96	17.84	19.27	13.74
	Earnings per share (NT\$)		0.57	0.66	0.72	0.79	0.47
Financial Structure	Liabilities to assets ratio (%)		95.41	95.76	95.44	95.11	94.59
	Property, plant, and equipment as a percentage of equity (%)		25.53	26.31	24.75	23.32	20.72
Growth Rate	Asset growth rate (%)		6.05	14.76	(2.22)	(2.61)	2.81
	Earnings growth rate (%)		9.31	6.38	28.17	7.92	(29.26)
Cash Flow	Cash flow ratio (%)		Explanation 1	87.10	Explanation 1	Explanation 1	54.83
	Cash flow adequacy ratio (%)		Explanation 2	2,331.83	1,022.91	Explanation 2	Explanation 2
	Cash flow satisfied ratio (%)		Explanation 1	4,939.84	Explanation 1	Explanation 1	5,194.97
Liquidity Reserve Ratio (%)			15.90	24.29	28.84	19.22	21.41
Total Secured Loans to Related Parties			1,069	910	1,387	1,359	1,369
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)			0.58	0.47	0.80	0.746	0.755
Operating Scale	Asset market share (%)		0.54	0.57	0.54	0.51	0.50
	Equity market share (%)		0.39	0.37	0.36	0.36	0.39
	Deposit market share (%)		0.63	0.70	0.64	0.60	0.59
	Loan market share (%)		0.72	0.70	0.62	0.64	0.62
Reasons for the changes in financial ratios over the last two years: The average profit per employee, rate of return on Class I capital, ROA, ROE, net profit rate, EPS and profit growth rate in 2017 indicated decline of more than 20% in the same period of 2016 mainly because the “Provision for bad debts and guaranty liability reserve” increased by NT\$226 million from the same period of 2016, the extent to which profit in 2017 was hampered.							

Explanation: 1. Cash flow from operating activities was a net outflow in 2013 ,2015and 2016.

2. Cash flow from operating activities was a net outflow in recent five years.

Note: 1. The financial information listed above audited by the bank’ s independent auditors, except Operating Scale.

2. The aforementioned ratios are calculated as follows : Please refer to page 80.

II .Financial Analysis (Individual)

Unit: NTS Million/%

Items \ FY		Financial Analysis of Recent Five Years				
		2013	2014 (re-compilation)	2015	2016	2017
Operating Ability	Loans to deposits ratio (%)	89.97	77.68	72.95	78.65	77.53
	Ratio of NPL (%)	0.60	0.45	0.48	0.45	0.51
	Interest expenses to average deposit balances (%)	0.85	0.84	0.84	0.73	0.71
	Interest income to average loan balances (%)	2.15	2.23	2.27	2.13	2.10
	Total assets turnover ratio (times)	0.01	0.01	0.01	0.01	0.01
	Operating revenue per employee	3.06	3.58	3.47	3.54	3.39
	Earnings per employee	0.44	0.54	0.63	0.69	0.47
Profitability	Return on tier 1 capital (%)	4.67	4.83	5.89	6.04	3.93
	Return on total assets (%)	0.18	0.20	0.22	0.25	0.17
	Return on equity	3.94	4.61	5.09	5.32	3.39
	Net profit margin (%)	14.38	15.11	18.12	19.59	13.82
	Earnings per share (NT\$)	0.57	0.66	0.72	0.79	0.47
Financial Structure	Liabilities to assets ratio (%)	95.42	95.76	95.45	95.11	94.59
	Property, plant, and equipment as a percentage of equity (%)	25.52	26.31	24.75	23.32	20.72
Growth Rate	Asset growth rate (%)	6.04	14.75	(2.21)	(2.61)	2.80
	Earnings growth rate (%)	9.76	6.46	28.29	7.75	(28.94)
Cash Flow	Cash flow ratio (%)	Explanation 1	87.16	Explanation 1	Explanation 1	54.86
	Cash flow adequacy ratio (%)	Explanation 2	2,337.68	1,024.76	Explanation 2	Explanation 2
	Cash flow satisfied ratio (%)	Explanation 1	4,943.46	Explanation 1	Explanation 1	5194.44
Liquidity Reserve Ratio (%)		15.90	24.29	28.84	19.22	21.41
Total Secured Loans to Related Parties		1,069	910	1,387	1,359	1,369
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)		0.58	0.47	0.80	0.746	0.755
Operating Scale	Asset market share (%)	0.54	0.57	0.54	0.51	0.50
	Equity market share (%)	0.39	0.37	0.36	0.36	0.39
	Deposit market share (%)	0.63	0.70	0.64	0.60	0.59
	Loan market share (%)	0.72	0.70	0.62	0.64	0.62

Explanation: 1. Cash flow from operating activities was a net outflow in 2013 ,2015and 2016.

2. Cash flow from operating activities was a net outflow in recent rive years.

Note : 1. The financial information listed above audited by the bank' s independent auditors, except Operating Scale.

2. The aforementioned ratios are calculated as follows : Please refer to page 80.



III. Financial Analysis (Single)

Items		FY	Financial Analysis of Recent Years
			2018
Operating Ability	Loans to deposits ratio (%)		82.12
	Ratio of NPL (%)		0.81
	Interest expenses to average deposit balances (%)		0.81
	Interest income to average loan balances (%)		2.21
	Total assets turnover ratio (times)		0.01
	Operating revenue per employee		3.40
	Earnings per employee		0.47
Profitability	Return on tier 1 capital (%)		3.53
	Return on total assets (%)		0.18
	Return on equity		3.35
	Net profit margin (%)		13.70
	Earnings per share (NT\$)		0.46
Financial Structure	Liabilities to assets ratio (%)		94.58
	Property, plant, and equipment as a percentage of equity (%)		19.99
Growth Rate	Asset growth rate (%)		1.76
	Earnings growth rate (%)		(2.13)
Cash Flow	Cash flow ratio (%)		Explanation 1
	Cash flow adequacy ratio (%)		Explanation 2
	Cash flow satisfied ratio (%)		Explanation 1
Liquidity Reserve Ratio (%)			18.18
Total Secured Loans to Related Parties			771.51
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)			0.41
Operating Scale	Asset market share (%)		0.49
	Equity market share (%)		0.37
	Deposit market share (%)		0.54
	Loan market share (%)		0.60

Explanation : 1. Cash flow from operating activities was a net outflow in 2018.

2. Cash flow from operating activities was a net outflow in recent five years.

Note : 1. The financial information listed above audited by the bank's independent auditors, except Operating Scale.

2. The aforementioned ratios are calculated as follows :

(1) Operating Efficiency.

A. Loans to deposits ratio = Total loans / Total deposits.

- B. Ratio of NPL = Total non-performing loans / Total loans.
- C. Interest expenses to average deposit balances = Total expenses of deposit interests / Annual average deposit balances.
- D. Interest Income to average loan balances = Total expenses of loan interests / Annual average loan balances.
- E Total assets turnover ratio = Net revenue / Average total assets.
- F. Operating revenue per employee (note 6) = Net revenue / Total number of employees.
- G. Earnings per employee = Net income / Total number of employees.
- (2) Profitability.
 - A. Return on Tier 1 capital = Income before tax / Average net Tier 1 capital.
 - B. Return on total assets = Net income / Average total assets.
 - C. Return on equity = Net income / Average total equity.
 - D. Net profit margin = Net income / Net revenue.
 - E. Earnings per share = (Profit and loss attributable to the parent company – Preferred stock dividends) / Weighted average outstanding shares (note 4).
- (3) Financial Structure.
 - A. Liabilities to assets ratio = Total liabilities / Total assets.
 - B. Property, plant, and equipment as a percentage of equity = Property, plant, and equipment / Net equity.
- (4) Growth Rate.
 - A. Asset growth rate = (Current total asset – Last year’ s total asset) / Last year’ s total asset.
 - B. Earnings growth rate = (Current earnings before tax – Last year’ s earnings before tax) / Last year’ s earnings before tax.
- (5) Cash Flows (note 7).
 - A. Cash flow ratio = Cash flows from operating activities / (Due to banks and drafts + commercial bills payable + financial liabilities at fair value through income statement + bills and bonds sold under repurchase agreements + accounts payable in 1 year).
 - B. Cash flow adequacy ratio = Cash flows from operating activities in the last 5 Years / (Capital expenditure + cash dividends) in the last 5 Years.
 - C. Cash flow satisfied ratio = Cash flows from operating activities / Cash flows from investing activities.
- (6) Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided.
- (7) Operating Scale.
 - A. Asset market share = Total assets / Total assets of financial institutes which can operate deposits and loans business (note 5).
 - B. Equity market share = Total equities / Total equities of financial institutes which can operate deposits and loans business.
 - C. Deposit market share = Total deposits / Total deposits of financial institutes which can operate deposits and loans business.
 - D. Loan market share = Total loans / Total loans of financial institutes which can operate deposits and loans business.
- 3. Total liabilities are net of reserves for losses on guarantees, and accidental loss.
- 4. The calculation formula for EPS mentioned above shall meet the following requirements during measurements :
 - (1) Using weighted average shares of common stocks as the basis, instead of issued shares in end of year.
 - (2) Any capital increases or treasury stocks trading shall consider its circulation period in calculating weighted average shares.
 - (3) Any surplus being transferred into capital increase or additional paid-in capital being transferred to capital increase, the calculation of semi-annual and annual EPS shall be adjusted according to capital increase ratio without considering the issuance period of such capital increase.
 - (4) If the preferred stocks are non-convertible cumulative preferred stock, its dividend of current year (whether is distribution is executed or not) shall be deducted from net income or increase the net loss.
 - (5) If the preferred stocks are non-cumulative, its dividend shall be deducted from net income; if there was net loss, the adjustment is not needed.
- 5. All financial institutions that can provide deposit and loan services including local banks, Chinese mainland bank branches in Taiwan, branches of foreign banks in Taiwan, credit unions, credit departments of fishermen’ s associations and farmers associations, and trust investment companies.
- 6. Amount of income equals the sum of interest income and non-interest income.
- 7. When measuring cash flow analysis, the following requirements shall be met :
 - (1) Operational net cash flow represent the operational net cash inflow in the statement of cash flow.
 - (2) Capital expenditures stand for the cash outflow of annual capital investment.
 - (3) Cash dividend include dividend from common stocks and preferred stock.

6.2.2 Adequacy of Capital

I . Adequacy of Capital (Consolidation)

Unit: NT\$ Thousand/%

Items			FY	Adequacy Capital of Recent Five Years				
			Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	
Equity Capital	Common Stocks Equity		10,100,154	10,652,950	11,196,125	11,764,282	13,336,546	
	Other Tier I Capital		—	—	—	—	—	
	Tier II capital		3,665,056	5,697,928	4,901,827	4,070,966	3,424,780	
	Equity Capital		13,765,210	16,350,878	16,097,952	15,835,248	16,761,326	
Total Weighted Average Risk Assets	Credit Risk	Standardized Approach	137,615,003	154,917,501	148,290,347	153,148,703	150,145,883	
		Internal Rating Based Approach (IRB)	—	—	—	—	—	
		Asset Securitization	1,772,752	832,647	26,252	—	—	
	Operational Risk	Basic Indicator Approach (BIA)	4,941,919	5,419,853	5,803,908	6,072,970	6,097,877	
		Standardized Approach / Alternative Standardized Approach	—	—	—	—	—	
		Advanced Measurement Approach	—	—	—	—	—	
	Market Risk	Standardized Approach	3,177,928	4,913,197	4,383,324	2,604,740	1,200,934	
		Internal Model Approach	—	—	—	—	—	
	Total Weighted Average Risk Assets		147,507,602	166,083,198	158,503,831	161,826,413	157,444,694	
	Capital Adequacy Ratio (%)			9.33%	9.84%	10.16%	9.79%	10.65%
Tier 1 Capital to Risk Assets Ratio (%)			6.85%	6.41%	7.06%	7.27%	8.47%	
Common Stock Equity to Risk Assets Ratio (%)			6.85%	6.41%	7.06%	7.27%	8.47%	
Leverage Ratio (%)			3.21%	3.08%	4.04%	4.40%	4.86%	
Reasons for changes of capital adequacy ratios for the last two years: None.								

Note: 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2013~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2016~2017.

2. The aforementioned ratios are calculated as follows

- (1) Equity capital = common stock equity + other Tier I capital + Tier II capital.
- (2) Total weighted average risk assets = credit risk weighted average risk assets + provision of (operation risk + market risk) capital x 12.5.
- (3) Capital adequacy ratio = equity capital / total weighted average risk assets
- (4) Common stock equity to risk assets ratio = common stock equity / total weighted average risk assets
- (5) Tier I capital to risk assets ratio = (common stock equity + other Tier I capital) / total weighted average risk assets
- (6) Leverage ratio = Tier I capital / total risk exposure

II. Adequacy of Capital (Individual)

Unit: NT\$ Thousand/%

Items \ FY			Adequacy Capital of Recent Five Years				
			Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Equity Capital	Common Stocks Equity		10,070,584	10,622,652	11,160,671	11,723,280	13,309,984
	Other Tier I Capital		—	—	—	—	—
	Tier II capital		3,635,375	5,667,630	4,866,313	4,029,930	3,398,317
	Equity Capital		13,705,959	16,290,282	16,026,984	15,753,210	16,708,301
Total Weighted Average Risk Assets	Credit Risk	Standardized Approach	137,624,108	154,925,078	148,308,781	153,154,875	150,154,510
		Internal Rating Based Approach (IRB)	—	—	—	—	—
		Asset Securitization	1,772,752	832,647	26,252	—	—
	Operational Risk	Basic Indicator Approach (BIA)	4,907,761	5,378,268	5,764,427	6,032,467	6,068,653
		Standardized Approach / Alternative Standardized Approach	—	—	—	—	—
		Advanced Measurement Approach	—	—	—	—	—
	Market Risk	Standardized Approach	3,177,928	4,913,197	4,383,324	2,604,740	1,200,934
		Internal Model Approach	—	—	—	—	—
	Total Weighted Average Risk Assets		147,482,548	166,049,190	158,482,784	161,792,082	157,424,097
	Capital Adequacy Ratio (%)			9.29%	9.81%	10.11%	9.74%
Tier I Capital to Risk Assets Ratio (%)			6.83%	6.40%	7.04%	7.25%	8.45%
Common Stock Equity to Risk Assets Ratio (%)			6.83%	6.40%	7.04%	7.25%	8.45%
Leverage Ratio (%)			3.21%	3.07%	4.03%	4.38%	4.85%

Note: 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2013~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2016~2017.

2. The aforementioned ratios are calculated as follows

- (1) Equity capital = common stock equity + other Tier I capital + Tier II capital.
- (2) Total weighted average risk assets = credit risk weighted average risk assets + provision of (operation risk + market risk) capital x 12.5.
- (3) Capital adequacy ratio = equity capital / total weighted average risk assets
- (4) Common stock equity to risk assets ratio = common stock equity / total weighted average risk assets
- (5) Tier I capital to risk assets ratio = (common stock equity + other Tier I capital) / total weighted average risk assets
- (6) Leverage ratio = Tier I capital / total risk exposure

III. Adequacy of Capital (Single)

1. Please refer to page 173.

2. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for FY 2018.

6.3 Audit Committee's Audit Report on the Financial Statements of Recent Years

Audit Committee's Report for Bank of Kaohsiung

Mar.21, 2019

The Board of Directors has prepared the business report, financial statements, and earnings distribution for year 2018. Among these, Crowe Horwath (TW) CPAs has audited the financial statements and issued an audit report. We, the Audit Committee, have reviewed said business report, financial statements, and earnings distribution. We believe that these statements comply with applicable regulations. This report is duly submitted pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, and we hereby submit this report.

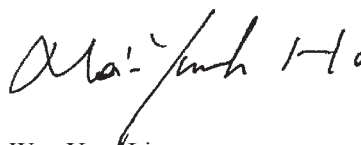
Regard to

Regular Shareholders' Meeting of the Bank of Kaohsiung

Audit Committee's

Independent Director :

Mei-Yueh Ho



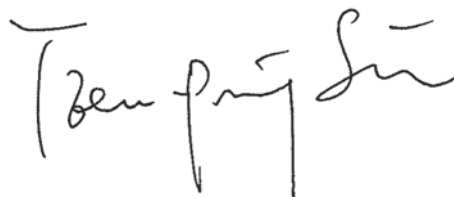
Independent Director :

Wen-Yuan Lin



Independent Director :

Tzen-Ping Su



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

6.4 Financial Report for FY 2018

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Lingya Dist., Kaohsiung
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying balance sheets of the Bank of Kaohsiung Co., Ltd. (the Company), as of December 31, 2018 and 2017 and the related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and related notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kaohsiung Bank as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Kaohsiung Bank in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As stated in Note 1, the Company absorbed the wholly-owned subsidiary, Kaohsiung Bank Insurance Agency Co., Ltd. (KBIA) and Kaohsiung Bank General Insurance Agency Co., Ltd. (KBGIA) on January 23, 2018. After merger, the Company has no subsidiaries. Therefore, only individual financial report will be issued, and consolidated and parent only financial reports will no longer be issued since the first quarter of 2018. The merger of the Company and KBIA and KBGIA is corporate restructuring in essence. According to the interpretation issued by the Accounting Research and Development Foundation of Republic of China, the merger should be seen merged from the beginning while preparing comparative financial statements and the financial statements of the prior years should be re-prepared. However, since the structure of the Company after the merger is the same as that of consolidation structure before the merger, the re-prepared financial statements of the year ended 2017 are the same as the consolidated financial statements of the year ended 2017.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on those matters. The Company's key audit matters for the year ended December 31, 2018 are addressed as follows

1. Impairment losses on loans and receivables

The balance of loans and receivables from the balance sheet of the Company as of December 31, 2018 was \$183,418,725 thousand (after deducting the allowance for bad debts of \$2,277,031 thousand). Please refer to notes 5 and 6.7 and 6.8 of the financial report. Due to the unstable domestic and foreign economic situation, the collection risk of retrieve of loans and receivables has increased. Since the provision of impairment losses involves significant judgments of management, we decided to take it as a key audit matter.

The main audit procedures we had implemented for the above-mentioned aspects include: understanding and appraisal of the assumptions and assessments of the Company's loans and receivables impairment losses (including default loss rate, default probability, forward-looking factor, future cash flow and the collateral value) and relevant policies; selecting samples for credit cases that have been assessed for impairment, assessment of future cash flow projections and the reasonableness of the collateral value; for collective assessment of impairment cases, understanding and testing whether impairment model's assumption and important parameters (default loss rate, default probability and forward-looking factor) reflect the actual situation of each loan combination; testing the classification of credit assets to assess whether the allowance for bad debts meets the requirements of the competent authority's laws and regulations.

2. Fair value measurement of financial instrument

Financial assets at fair value through the profit and loss and financial assets measured at fair value through other comprehensive gains and losses from the Company's balance sheet was \$384,390 thousand and \$18,366,343 thousand. The fair value of partial financial instruments is evaluated by the evaluation model because there is no trading price in the market, and some of the required input values are not publicly available in the market. Since the use of different evaluation techniques and input value assumptions involves significant judgments of the management, we decided to take it as a key audit matter.

The main audit procedures we had implemented for the above-mentioned aspects include: understanding the Company's control over the identification, measurement and management of the evaluation risks; and sample testing the internal reviewing document for the adequacy, correctness and validity of the public quotation for the financial instruments that measure the fair value using the open market quotation. In addition, we also evaluates whether the expression and disclosure of the financial instrument is in accordance with relevant accounting standards.

Responsibilities of management and those charged with governance for the financial statement

Management is responsible for the preparation and fair representation of the financial statement in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statement management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basic of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath (TW) CPAs

CPA : Jen-Yao Hsieh

Hsieh JEN YAO

CPA : Ping-Chang Su

Su Ping Chang

Republic of China March 21, 2019

Authorized: Jin-Kuan-Cheng-Shen-No.10200032833

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

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

The financial statements are translated from Chinese version and unaudited.



BANK OF KAOHSIUNG CO., LTD.

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS		Note	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY		Note	December 31, 2018		December 31, 2017	
A/C No.	Accounts		Amount	%	Amount	%	A/C No.	Accounts		Amount	%	Amount	%
Assets													
11000	Cash and cash equivalents	6.1	\$2,939,455	1	\$4,158,173	2	21000	Due to the central bank and other banks	6.14	\$8,695,456	3	\$5,923,147	2
11500	Due from the central bank and call loans to banks	6.2	12,863,177	5	13,273,376	5	22000	Financial liabilities at fair value through profit or loss	6.15	199,806	—	989	—
12000	Financial assets at fair value through profit or loss	6.3	384,390	—	1,277,049	—	22500	Securities sold under repurchase agreements	6.16	10,430,841	4	5,367,405	2
12100	Financial assets at fair value through other comprehensive income	6.4	18,366,343	7	—	—	23000	Payables	6.17	4,105,726	2	3,659,663	1
12200	Investments in debt instruments at amortized cost	6.5	41,341,955	15	—	—	23200	Current income tax liabilities	—	—	—	9,894	—
12500	Securities purchased under resale agreements	6.6	5,242,712	2	9,225,080	4	23500	Deposits and remittances	6.18	223,286,113	83	229,748,828	87
13000	Receivable, net	6.7	2,174,501	1	1,151,418	—	24000	Bonds payables	6.19	6,300,000	2	4,000,000	2
13200	Current income tax assets	—	19,095	—	48,251	—	25500	Other financial liabilities	—	257	—	1,200	—
13500	Discounts and loans, net	6.8	181,244,224	68	175,860,151	68	25600	Provisions	6.20	432,830	—	367,196	—
14000	Available — for — sale financial assets, net	6.9	—	—	53,841,282	20	29500	Other liabilities	6.21	103,060	—	98,817	—
15500	Other financial assets, net	6.10	41,145	—	1,101,586	—	20000	Total Liabilities	—	253,554,089	94	249,177,139	94
18500	Properties and equipment, net	6.11	2,887,819	1	2,940,209	1	Equity		—	—	—	—	—
19000	Intangible assets, net	6.12	118,803	—	121,246	—	31101	Common stock	6.22	10,403,431	4	10,032,238	4
19300	Deferred income tax assets	6.35	258,879	—	215,018	—	31500	Capital surplus	6.22	1,487,157	—	1,657,705	1
19500	Other assets, net	6.13	116,603	—	151,346	—	32000	Retained earnings	—	—	—	—	—
							32001	Legal reserve	6.22	2,097,423	1	1,969,842	1
							32003	Special reserve	6.22	5,230	—	47,037	—
							32005	Unappropriated earnings	6.22	402,652	—	425,268	—
							Total Retained Earnings		—	2,505,305	1	2,442,147	1
							32500	Other Equity interest	6.22	49,119	—	54,956	—
							30000	Total Equity	—	14,445,012	6	14,187,046	6
10000	Total assets		\$267,999,101	100	\$263,364,185	100	Total		—	\$267,999,101	100	\$263,364,185	100

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

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of New Taiwan dollars, Except Earnings Per Share)

A/C No.	Accounts	Note	For the Year Ended December 31				
			2018		2017		Change%
			Amount	%	Amount	%	
41000	Interest income		\$4,961,527	142	\$4,388,687	133	13
51000	Less: interest expense		(2,329,894)	(67)	(1,854,178)	(56)	26
49010	Net interest income	6.23	2,631,633	75	2,534,509	77	4
	Net revenues other than interest						
49100	Commission and fee revenues, net	6.24	503,670	14	457,726	14	10
49200	Gains (losses) on financial assets and liabilities at fair value through profit or loss	6.25	192,684	6	118,602	4	62
49300	Realized gains (losses) on available-for-sale financial assets	6.26	—	—	69,499	2	(100)
49310	Realized gains (losses) on financial assets at fair value through other comprehensive income	6.27	213,684	6	—	—	100
49400	Realized gains (losses) on held-to-maturity financial assets		—	—	7,244	—	(100)
49600	Foreign exchange gains, net	6.28	(55,742)	(2)	14,128	—	(495)
49700	Gains on reversal of asset impairment loss	6.29	(5,318)	—	—	—	(100)
49800	Other net non-interest income						
49805	Net gains (losses) on financial assets carried at cost	6.30	—	—	53,716	2	(100)
49899	Other miscellaneous income (loss)	6.31	19,009	1	36,932	1	(49)
	Total net revenues		3,499,620	100	3,292,356	100	6
58200	Bad-debt expenses and provision for losses on commitments and guarantees	6.8	(717,977)	(20)	(590,254)	(18)	22
58400	Operating expenses						
58500	Employee benefits	6.32	(1,495,954)	(43)	(1,434,337)	(44)	4
59000	Depreciation and amortization	6.33	(105,472)	(3)	(98,161)	(3)	7
59500	Other general and administrative	6.34	(692,085)	(20)	(670,868)	(20)	3
61001	Income before income tax		488,132	14	498,736	15	(2)
61003	Income tax benefit (expense)	6.35	(8,529)	—	(46,320)	(1)	(82)
64000	Net income for the period		479,603	14	452,416	14	6
	Other comprehensive income						
	Items that will not be reclassified subsequently to profit or loss						
65201	Remeasurement on defined benefit plans		(\$32,336)	(1)	(\$32,988)	(1)	(2)
65204	Gain on valuation of investments in equity instruments at fair value through other comprehensive income		(45,834)	(1)	—	—	(100)
65220	Income tax related to items that will not be reclassified subsequently to profit or loss	6.35	11,759	—	5,608	—	110
	Items that may be reclassified subsequently to profit or loss						
65301	Exchange differences on the translation of financial statements of foreign operations		95	—	(445)	—	121
65302	Unrealized gains (losses) on available-for-sale financial assets		—	—	99,407	3	(100)
65309	Unrealized losses on investments in debt instruments at fair value through other comprehensive income		(195,904)	(6)	—	—	(100)
65310	Debt instrument measured at fair value through other comprehensive income (impairment losses) and reversal gains		3,656	—	—	—	100
65320	Income tax related to items that may be reclassified subsequently to profit or loss	6.35	(12)	—	76	—	(116)
65000	Other comprehensive income, net of tax	6.36	(258,576)	(8)	71,658	2	(461)
66000	Total comprehensive income for the period		\$221,027	6	\$524,074	16	(58)
	Earnings per share (dollars)						
67500	Basic earnings per share	6.37	\$0.46		\$0.45		

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



BANK OF KAOHSIUNG CO., LTD. STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

Items	Capital Stock	Capital Surplus	Retained Earnings			Other Equity				Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on the Translation of Financial Statements of Foreign Operations	Unrealized Gains on Available-for-sale Financial Assets	Unrealized Gains on Financial Assets at Fair Value Through Other Comprehensive Income	Other	
Balance at January 1, 2017	\$8,232,238	\$1,872,395	\$1,783,631	\$ —	\$620,704	\$176	(\$44,331)	\$ —	\$221	\$12,465,034
Capital increase by cash	1,800,000	—	—	—	—	—	—	—	—	1,800,000
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	—	—	186,211	—	(186,211)	—	—	—	—	—
Special reserve appropriated	—	—	—	47,037	(47,037)	—	—	—	—	—
Cash dividends	—	—	—	—	(387,224)	—	—	—	—	(387,224)
Other changes of retained earnings:										
Capital surplus distributed as cash dividend	—	(214,690)	—	—	—	—	—	—	—	(214,690)
Net income for the year ended December 31, 2017	—	—	—	—	452,416	—	—	—	—	452,416
Other comprehensive income (loss) for the year ended December 31, net of income tax	—	—	—	—	(27,380)	(369)	99,407	—	—	71,658
Total comprehensive income (loss) for the year ended December 31, 2017	—	—	—	—	425,036	(369)	99,407	—	—	524,074
Other	—	—	—	—	—	—	—	—	(148)	(148)
Balance at December 31, 2017	\$10,032,238	\$1,657,705	\$1,969,842	\$47,037	\$425,268	(\$193)	\$55,076	\$ —	\$73	\$14,187,046
Balance at January 1, 2018	\$10,032,238	\$1,657,705	\$1,969,842	\$47,037	\$425,268	(\$193)	\$55,076	\$ —	\$73	\$14,187,046
Effect of retrospective application	—	—	—	—	(71,178)	—	(55,076)	293,603	—	167,349
Balance at 1 January after adjustments	10,032,238	1,657,705	1,969,842	47,037	354,090	(193)	—	293,603	73	14,354,395
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	—	—	127,581	—	(127,581)	—	—	—	—	—
Reversal of special reserve appropriated	—	—	—	(41,807)	41,807	—	—	—	—	—
Cash dividends	—	—	—	—	(130,410)	—	—	—	—	(130,410)
Stock dividends	200,645	—	—	—	(200,645)	—	—	—	—	—
Other changes of retained earnings:										
Capital surplus distributed as stock dividend	170,548	(170,548)	—	—	—	—	—	—	—	—
Net income for the year ended December 31, 2018	—	—	—	—	479,603	—	—	—	—	479,603
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	—	—	—	—	(20,577)	83	—	(238,082)	—	(258,576)
Total comprehensive income (loss) for the year ended December 31, 2018	—	—	—	—	459,026	83	—	(238,082)	—	221,027
Disposal of equity instruments measured at fair value through other comprehensive income	—	—	—	—	6,365	—	—	(6,365)	—	—
Balance at December 31, 2018	\$10,403,431	\$1,487,157	\$2,097,423	\$5,230	\$402,652	(\$110)	\$ —	\$49,156	\$73	\$14,445,012

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

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CASH FLOWS
(In thousands of New Taiwan Dollars)

Items	For the Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before income tax	\$488,132	\$498,736
Adjustments :		
Earnings and losses		
Depreciation expenses	70,604	67,319
Amortization expenses	34,868	30,842
Expected credit losses/bad—debt expenses	828,789	799,862
Losses (gains) on financial assets and liabilities at fair value through profit or loss	(192,684)	(118,602)
Gains on disposal of properties and equipment	—	31
Interest expense	2,329,894	1,854,178
Interest revenue	(4,961,527)	(4,388,687)
Dividend income	(86,238)	(53,025)
Net change in provision for guarantees	(5,356)	(2,587)
Net change in other provisions	25,152	784
Impairment losses on financial assets	5,318	—
Gains on disposal of investments	(127,446)	(76,334)
Total of earnings and losses	(2,078,626)	(1,886,219)
Net changes in operating assets and liabilities		
Net changes in operating assets		
Decrease (increase) in due from the Central Bank and call loans to banks	(196,786)	217,376
Decrease (increase) in financial assets at fair value through profit or loss	354,720	2,827,444
Decrease (increase) in financial assets at fair value through other comprehensive income	2,507,288	—
Decrease (increase) in investments in debt instruments at amortized cost	(6,242,764)	—
Decrease (increase) in receivables	(854,715)	8,559
Decrease (increase) in discounts and loans	(6,241,137)	(1,011,313)
Increase (decrease) in available—for—sale financial assets	—	1,826,167
Decrease in held—to—maturity financial assets	—	(2,583,804)
Decrease (increase) in other financial assets	(22,863)	83,827
Total of net changes in operating assets	(10,696,257)	1,368,256
Net changes in operating liabilities		
Increase (decrease) in due to the Central Bank and other banks	2,772,309	(2,969,137)
Increase (decrease) in securities sold under repurchase agreements	5,063,436	4,265,882
Increase (decrease) in payables	345,938	(35,316)
Increase (decrease) in deposits and remittances	(6,462,715)	4,278,783
Increase (decrease) in other financial liabilities	(943)	(11,021)
Increase (decrease) in provision for employee benefits	(67,774)	(90,007)
Total of net changes in operating liabilities	1,650,251	5,439,184
Total of net changes in operating assets and liabilities	(9,046,006)	6,807,440
Total adjustments	(11,124,632)	4,921,221
Net cash generated from (used in) operations	(10,636,500)	5,419,957
Interest received	4,821,916	4,359,084
Dividend received	86,238	53,025
Interest paid	(2,229,769)	(1,832,211)
Income tax refunded (paid)	(7,988)	(60,221)
Net cash generated from (used in) operating activities	(7,966,103)	7,939,634
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for properties and equipment	(18,214)	(100,306)
Payments for intangible assets	(28,004)	(81,893)
Increase in other assets	30,322	29,366
Net cash generated from (used in) investing activities	(15,896)	(152,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	2,300,000	—
Decrease in guarantee deposits received	(1,976)	(18,738)
Increase in other liabilities	6,219	—
Decrease in other liabilities	—	(7,511)
Cash dividend	(130,410)	(601,914)
Capital increase by cash	—	1,800,000
Net cash generated from financing activities	2,173,833	1,171,837
Effects of exchange rate changes on cash and cash equivalents	95	(445)
Net increase (decrease) in cash and cash equivalents	(5,808,071)	8,958,193
Cash and cash equivalents at the beginning of the period	20,786,829	11,828,636
Cash and cash equivalents at the end of the period	\$14,978,758	\$20,786,829
Composition of cash & cash equivalents		
Cash and cash equivalents in the balance sheets	\$2,939,455	4,158,173
Due from Central Bank and call loans to banks in accordance with cash and cash equivalents under IAS 7 "Statement of Cash Flows"	6,796,591	7,403,576
Investments in securities sold under repurchase agreements that meet the definition of cash & cash equivalents in IAS No. 7 "Statement of Cash Flows"	5,242,712	9,225,080
Cash and cash equivalents at the end of the period	\$14,978,758	\$20,786,829

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

BANK OF KAOHSIUNG CO., LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of New Taiwan 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 Banking Act of the Republic of China. The Company obtained its registration approval in December 1981 and the Certificate of Business Registration in January the following year. The Company'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 Act.
- (4) Savings and trust operations.
- (5) Other relevant businesses authorized authorities.

The Company has five departments under the head office namely, business, municipal treasury, international banking, trust and wealth management departments. In addition, the Company 35 local branches and mini-branches as well as offshore banking unit (OBU).

The Company's initial public offering was approved on April 27, 1998 and was listed on May 18, 1998.

The privatization of the Company was approved by Kaohsiung Municipal Government on August 3, 1999 and the date of official privatization was September 27, 1999.

1.2 Kaohsiung Bank Insurance Agency Co., Ltd. (KBIA) was established on November 18, 2002 to provide life insurance agent service. Kaohsiung Bank General Insurance Agency Co., Ltd. (KBGIA) was established on June 27, 2002 to provide property insurance agent service. To integrate resources and to create comprehensive benefits, the Company had merged KBIA and KBGIA on January 23, 2018. The merger had no influence on the Company's shareholders' equity since KBIA and KBGIA are 100% owned subsidiaries by the Company. The rights and obligations of KBIA and KBGIA's assets and liabilities were fully assumed by the Company. After merger, since the Company has no other consolidated entity, consolidated and parent company only financial statements will no longer be issued. Instead, individual financial statements will be issued. Since the Company's merger with KBIA and KBGIA is corporate restructuring in essence, the merger should be seen merged from the beginning while preparing comparative financial statements and the financial statements of the prior years should be re-prepared according to the interpretation of Accounting Research and Development Foundation. However, since the structure of the Company after the merger is the same as that of consolidation structure before the merger, the re-prepared financial statements of year ended 2017 are the same as the consolidated financial statement of year ended 2017.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issuance on March 21, 2019.

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

3.1 Effect of the adoption of revised Regulation Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and new issuances of amendments to International Financial Reporting Standards ("IFRSs") as endorsed by the Financial Supervisory Commission ("FSC"):

With the exceptions of the following, the aforementioned criteria and interpretations have no significant influence on the financial position and business results of the Company after proper evaluation.

- (1) IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

When choosing the classification, measurement, and impairment of financial assets under IFRS 9, the Company does not recompile information on 2017 for comparison. As of January 1, 2018, the changes of the measurement categories and carrying values determined under IAS 39 and IFRS 9 for each category of financial assets are summarized as follows:

	IAS 39		IFRS 9	
	Measurement Category	Carrying Amount	Measurement Category	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables	\$ 4,158,173	Amortized cost	\$ 4,158,173
Due from the Central Bank and call loans to banks	Loans and receivables	13,273,376	Amortized cost	13,273,376
Financial assets at fair value through profit or loss	Fair value through profit or loss	1,277,049	Fair value through profit or loss	347,609
			Fair value through other comprehensive income	10,750
			Amortized cost	918,722
Securities purchased under resell agreements	Loans and receivables	9,225,080	Amortized cost	9,225,080
Receivables, net	Loans and receivables	1,151,418	Amortized cost	1,151,418
Discounts and loans, net	Loans and receivables	175,860,151	Amortized cost	175,860,151
Available—for—sale financial assets, net	Fair value through other comprehensive income	53,841,282	Fair value through other comprehensive income	19,751,303
Other financial assets, net	Financial assets measured at cost	1,082,580	Amortized cost	34,183,845
	Loans and receivables	19,006	Fair value through other comprehensive income	1,225,878
Other assets, net	Loans and receivables	99,314	Amortized cost	19,006
			Amortized cost	99,314

The impact of IAS 39 to IFRS 9 on equity is summarized below:

Item	January 1, 2018		
	Retained Earnings Effect	Other Equity Effect	Total
The change of the measurement category (Table A)	\$732	\$236,464	\$237,196
The change of impairment loss model (Table B)	(85,303)	2,063	(83,240)
Adjustment of deferred income tax	13,393	—	13,393
Total	(\$71,178)	\$238,527	\$167,349



A. Reconciliation of balance sheet - IAS 39 to IFRS 9

As of January 1, 2018, the changes of the measurement categories and carrying value determined under IAS 39 and IFRS 9 for each category of financial assets are summarized as follows:

Financial Assets	Carrying Amount as of December 31, 2017 (IAS 39)	Reclassifications	Remeasurements	Carrying Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect as of January 1, 2018	Other Equity Effect as of January 1, 2018	Remark
FVTPL	\$1,277,049	\$ —	\$ —	\$1,277,049	\$ —	\$ —	
Less:							
Reclassification to financial assets at amortized cost (IFRS 9)	—	(918,690)	—	(918,690)	—	—	(a)
Reclassification to FVTOCI - equity instruments (IFRS 9)	—	(10,750)	—	(10,750)	—	—	(d)
Subtotal	\$1,277,049	(\$929,440)	\$ —	\$347,609	\$ —	\$ —	
FVTOCI	\$ —		\$ —	\$ —	\$ —	\$ —	
Add:							
Reclassification from FVTPL		10,750		10,750	700	(700)	(d)
Reclassification from available-for-sale financial assets (IAS 39)		19,751,303		19,751,303	—	—	(b)
Reclassification from financial assets carried at cost (IAS 39)		1,082,580	143,298	1,225,878	—	143,298	(c)
Subtotal	\$ —	\$20,844,633	\$143,298	\$20,987,931	\$700	\$142,598	
Amortized cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Add:							
Reclassification from available-for-sale financial assets (IAS 39)		34,089,979	93,866	34,183,845		93,866	(b)
Reclassification from FVTPL (IAS 39)		918,690	32	918,722	32		(a)
Subtotal	\$ —	\$35,008,669	\$93,898	\$35,102,567	\$32	\$93,866	
Total	\$1,277,049	\$54,923,862	\$237,196	\$56,438,107	\$732	\$236,464	

- (a) On January 1, 2018, the short-term bills which were classified as FVTPL under IAS 39 were reclassified as at amortized cost and assessed expected credit loss under IFRS 9 based on the fact that its business model is to collect the contractual cash flow and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on principle amount outstanding. The Company retroactively applied the effective interest method to determine the amortized cost as of January 1, 2018 and the retained earnings was therefore adjusted and increased \$32 thousand.
- (b) On January 1, 2018, the government bonds and corporate bonds which were classified as available-for-sale financial assets under IAS 39 were reclassified as at amortized cost and assessed expected credit loss under IFRS 9 based on the fact that its business model is to collect the contractual cash flow and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on principle amount outstanding. The Company retroactively applied the effective interest method to determine the amortized cost as of January 1, 2018 and other equity - unrealized gains for available-for-sale financial assets was therefore adjusted and increased \$93,866 thousand; the retained earnings decreased \$1,722 thousand.

The bond investments which were classified as available-for-sale financial assets under IAS 39 were reclassified as FVTOCI under IFRS 9 based on the fact that its business model is to collect the contractual cash flow and to sell. The Company retroactively applied the effective interest method to determine the amortized cost as of January 1, 2018 and the retained earnings was therefore decreased \$2,063 thousand; other equity - unrealized gains for available-for-sale financial assets was reclassified to other equity - unrealized gains for FVTOCI by \$149,632 thousand.

The equity investments which were classified as available-for-sale financial assets under IAS 39 were completely re-designated as FVTOCI under IFRS 9 based on the fact that they are not held for trading. Other equity - unrealized gains for available-for-sale financial assets was reclassified to other equity - unrealized gains for FVTOCI by (\$690) thousand.

- (c) The equity investments in unlisted companies which were classified as financial assets carried at cost under IAS 39 were re-designated as FVTOCI under IFRS 9. As of January 1, 2018, FVTOCI and other equity - unrealized gains for FVTOCI both increased by \$143,298 thousand.
- (d) The equity investments classified as FVTPL under IAS 39 were re-designated as FVTOCI under IFRS 9. The related retained loss of \$700 thousand were reclassified as other equity-unrealized gains for FVTOCI.

B. Reconciliation of impairment loss from IAS 39 to IFRS 9 As of January 1, 2018, the reconciliation of impairment loss transited from IAS 39 based on loss incurred model to IFRS 9 based expected loss model is as follows:

Measurement Category	Balance of impairment loss under IAS 39 and IAS 37	Reclassifications	Remeasurements	Balance of impairment loss under IFRS 9
Loans and receivables (IAS 39)/financial assets at amortized cost (IFRS 9)				
Receivables	\$69,179	\$—	\$27,285	\$96,464
Discounts and loans	1,038,062	—	389,339	1,427,401
Other financial assets	23,475	—	(374)	23,101
Impairment loss under regulations	1,452,179	—	(416,008)	1,036,171
	2,582,895	—	242	2,583,137
Available-for-sale financial instruments (IAS 39)/FVTOCI (IFRS 9)				
Available-for-sale financial assets	—	—	2,063	2,063
Available-for-sale financial assets (IAS 39)/financial assets at amortized cost (IFRS 9)				
Available-for-sale financial assets	—	—	1,722	1,722
Financing commitment and guarantee responsibility				
Loans (financing commitment)	—	—	33,477	33,477
Credit cards(Financing commitment)	—	—	533	533
Guarantees receivable	57,713	—	16,026	73,739
L/C receivable	—	—	31,240	31,240
Impairment loss under regulations	—	—	—	—
	57,713	—	81,276	138,989
Total	\$2,640,608	\$—	\$85,303	\$2,725,911

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

IFRS 15 is regulatory for revenue from contracts with customers and will replace IAS 18 “Revenue” and IAS 11 “Construction Contracts”, and related interpretations. For relevant accounting policies, please refer to Note 4. The Company's retroactive application of IFRS15 has no significant impact on the assets, liabilities and equity as of January 1, 2018.

3.2 Effect of revised Regulation Governing the Preparation of Financial Reports by Public Banks and new issuances of amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company:

The revised Regulation Governing the Preparation of Financial Reports by Public Banks and IFRSs endorsed by FSC with effective date starting 2019 were summarized as below:

New, Amended or Revised IFRSs and interpretations	Effective Date announced by IASB (Note 1)
IFRS 9, amendment to “Prepayment Features with negative compensation”	January 1, 2019
IFRS 16, “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 2)
IAS 28, “Investments in joint ventures and associates”	January 1, 2019
IFRIC 23, “Uncertainty over income tax treatments”	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

The application of the above New, amended or revised IFRSs and interpretations would not have material impact on the Company's accounting policies, except for the following:

(1) IFRS 16 “Leases”

IFRS16 is the accounting standards for leases, which will replace IAS 17 “lease”, IFRIC 4 “Determining Whether An Arrangement Contains A Lease”, and related explanations. When IFRS 16 is applied for the first time, the Company will process according to the transitional provisions of IFRS 16, and choose whether to contract (or include) the lease according to IFRS 16 for the contract signed or modified after January 1, 2019, without reassessing the current IAS 17. And IFRIC 4 recognizes the lease contract; for the current contract that IAS 17 and IFRIC 4 have identified as not including the lease, the current method is still not applicable to IFRS 16.

The Company as lessee

In the case of the application of IFRS 16, if the Company is a lessee, the leases and short-term leases of the low-value underlying assets will be treated as operating leases similar to IAS 17, and other leases will recognize the right-of-use assets and lease liabilities on the balance sheet. However, the income statement will separately represent the depreciation expense of the right-of-use asset and the interest expense arising from the effective interest method on the lease liability. In the cash flow statement, the principal amount of the repayment of the lease liability will be expressed as a fundraising activity, and the interest payment portion will be classified as a business activity.

Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the Company statements of cash flows. Financial lease contracts are classified within lease assets and obligation under capital leases, respectively.

Under initial application of IFRS 16, the Company anticipates applying retrospectively with the cumulative effect of this standard at the date of initial application, comparative information will not be restated.

Leases agreements on buildings and transportation equipment classified as operating leases under IAS 17 will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

Right-of-use assets are subject to impairment testing under IAS 36, except for following expediency (2). The Company will apply the following practical expedients to measure right-of-use assets and lease liabilities on January 1, 2019 :

- (1) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- (2) The Company will adjust the right-of-use assets in the amount of provision that recognized as onerous leases at the year ended December 31, 2018.
- (3) Leases agreements end before December 31, 2019 will be classified as short-term leases.
- (4) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- (5) The Company will determine lease period (if the contract includes an extension or the option to terminate) base on project status to measure assets.

For the leases classified as financial leases based on IAS17, the carrying amount of the lease assets liabilities as at December 31, 2018 will be used as the carrying amount as at January 1, 2019.

The Company as lessor

The Company will not make any adjustments for leases in which it is a lessor, and will be accounting for those leases under IFRS 16 starting from January 1, 2019.

If the Company continues to adopt IAS 17 in 2018, the impact on the current period of the application of IFRS16 is detailed below:

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use asset	\$ —	\$288,584	\$288,584
Total impact on assets	\$ —	\$288,584	\$288,584
Lease liabilities	\$ —	\$288,584	\$288,584
Total impact on liabilities	\$ —	\$288,584	\$288,584

Except for the above influences, the Company believes that the adoption of aforementioned standards or interpretations will not have a significant effect on the Company's financial position and financial performance as of the date the financial statements were issued.

3.3 The effect of the New IFRSs announced by IASB but not yet endorsed by the FSC:

The following table shows the IFRSs newly announced, not yet recognized by the FSC:

New, Amended or Revised IFRSs and interpretations	Effective Date announced by IASB (Note 1)
IFRS 10 and IAS 28, amendments to "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17, "Insurance Contracts"	January 1, 2021
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Company shall apply this amendment for acquisition on or after January 1, 2020.

Note 3: The Company shall apply this amendment for annual reporting periods beginning on or after January 1, 2020.

The Company is continuously assessing the possible impact that the application of the above standards and interpretations will have on the Company's financial position and operating result, and will disclose the relevant impact when the assessment is completed.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Company's financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4.1 Statement of Compliance

The financial statements have been prepared in accordance with the Regulation Governing the Preparation of Financial Reports by Public Banks, Regulation Governing the Preparation of Financial Reports by Securities Firms, and IFRS, as endorsed by the FSC.

4.2 Basis of Preparation

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

- A. Financial assets and liabilities measured at fair value through profit or loss (including derivatives) measured at fair value.
- B. Financial assets measured at fair value through other comprehensive income for 2018.
- C. Liabilities of cash-settled share-based payment agreement measured at fair value.
- D. Defined benefit liabilities recognized at the net value of pension fund assets less the present value of defined benefit obligations.

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

(3) In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has applied the rules retrospectively whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 was not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with IAS 39, IAS 11, IAS 18 and related financial reporting interpretations.

4.3 Foreign currency translation

(1) Functionality and presentation currency

The financial reporting items of the Company (including the domestic head office, branches and offshore banking unit) are measured in the "functional currency" of the main economic environment in which the operation is located, and are based on the functional currency of the domestic head office, branches. New Taiwan dollar is presented as an expression currency.

(2) Transaction and balance

Foreign currency denominated or required to be denominated in foreign currency transactions, the foreign currency amount is converted into functional currency billing based on the spot exchange rate between the functional currency and the foreign currency on the trading day.

Foreign currency monetary items are translated at the closing exchange rate at the end of the reporting period. Foreign currency non-monetary items that are measured at historical cost are translated at the exchange rates ruling at the original trading date, while foreign currency non-monetary items measured at fair value are translated at the exchange rate at the date the fair value is determined.

Exchange differences arising from settlement are recognized in profit or loss in the period in which they arise. Exchange differences on monetary items arising from translation are recognized in profit or loss in the period in which they arise except items that qualify as hedging instruments in a cash flow hedge are recognized initially in other comprehensive income to the extent that the hedge is effective.

When the profit or loss for non-monetary assets or liabilities measured at fair value recognized in other comprehensive income, exchange differences with the profit or loss also recognized in other comprehensive income. When the profit or loss for non-monetary assets or liabilities measured at fair value recognized in comprehensive income, exchange differences with the profit or loss also recognized in comprehensive income. The results and financial position of the Company's offshore banking unit whose functional currency is different from the presentation currency are translated into the presentation currency using the following procedures:

- a. Assets and liabilities are translated at the closing rate at the date of the balance sheets;

- b. Income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used; and

- c. All resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the above procedures are recognized as “Exchange differences from translation of foreign operation” in equity.

When the foreign operation or part of the foreign operation is disposed of, exchange differences are recognized initially in other comprehensive income and reclassified from equity to profit or loss.

4.4 Cash and cash equivalents

Cash and cash equivalents are cash in vault, cash in banks, due from other banks, short-term time deposits and short-term financial instruments that must be readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. For the statement of cash flows, cash and cash equivalents are cash and cash equivalents on the balance sheet, due from the Central Bank and call loans to banks and securities purchased under resell agreements that are in conformity with the definition of cash and cash equivalents in the IAS 7 endorsed by the FSC.

4.5 Bonds purchased under resell/notes issued under repurchase agreements

For underwritten bonds and securities that are sold under RP and RS agreements, recognize interest expense and interest income on the accrual basis between the purchase and sale dates and agreed RP and RS date; also, recognize RP (Debt) and bonds and securities sold under resell agreements between the sale and purchase dates.

4.6 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

(1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A.Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in debt instruments and equity instruments at FVTOCI.

(A) Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(B)Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- a.The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b.The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, due from the Central Bank and call loans to other banks, receivables and discounts and loans, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- a. Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- b. Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

(C) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- a. The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of the financial assets; and
- b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in interest income calculated using the effective interest method, foreign currency exchange rates and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

(D) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments. Instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale (AFS) financial assets, held-to-maturity financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(A) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.

A financial asset is classified as designated as at FVTPL upon initial recognition if:

- a. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(B) Available-for-sale (AFS) financial assets

AFS financial assets are nonderivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss. AFS financial assets are stated at fair value at each balance sheet date.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed or is determined to be impaired.

Cash dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of investee's shares held.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit or loss.

(C) Held-to-maturity financial assets

Held-to-maturity financial assets are nonderivative financial assets with fixed or determinable payments and a fixed maturity date that the Company has the positive intent and ability to hold to maturity.

After initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

(D) Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents, due from the Central Bank and call loans to other banks, receivables, debt instruments with no active market) are measured at amortized cost using the effective interest method less any impairment.

B. Impairment of financial assets

2018

The Company's debt instrument investment, fair value measurement, debt instrument investment, loan instrument investment, loan commitment and financial guarantee contract, measured at fair value through other comprehensive gains and losses, at each balance sheet date. After considering all reasonable and provable information (including forward-looking), the credit risk is not significantly increased since the original recognition, and the allowance loss is measured by the 12-month expected credit loss amount; If the credit risk has increased significantly and the credit is devalued, the allowance for loss is measured by the amount of credit loss expected during the duration.

The Company measures the expected credit losses of financial instruments in a manner that reflects the following:

1. An unbiased and probability-weighted amount determined by evaluating each possible outcome;
2. Time value of money;
3. Reasonable and corroborative information relating to past events, current conditions and future economic forecasts (available at the reporting date without excessive cost or investment).

Those who are credit assets shall, on the balance sheet date, strengthen their country according to the



“Bank Assets Assessment Loss Provision and the Overdue Loan Collection and Handling Method” and the “Republic of China, December 4, 2014, Jin Guan Yin Guo Zi No. 10300329440 Bank real estate loan risk-bearing capacity and the provisions of the “Recommendation of the Bank of China on the Control of Risks and Risks of Mainland Banks in the Mainland of China on April 23, 2015, and the IFRS 9 Regulations” And provide an appropriate allowance for bad debts in the sum of the two, and present them on a net basis.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- (A) Significant financial difficulty of the asset issuer and debtor;
- (B) The financial assets becoming overdue;
- (C) Probability that the debtor will enter into bankruptcy or undergo financial reorganization.

Financial assets carried at amortized cost (loans and receivables) that are individually assessed had no objective evidence of impairment are further assessed collectively for impairment. Objective evidence of impairment for a portfolio of receivables could include the Company’s past difficulty in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on financial assets.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows with consideration to the collaterals and guarantees, discounted at the financial asset’s original effective interest rate.

For financial assets measured at amortized cost, if the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

For AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. For AFS debt instruments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. This impairment loss will not be reversed in subsequent periods.

Impairment loss on financial asset is recognized by reducing its carrying amount through the use of an allowance account. When financial assets are considered uncollectable, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2017 and 2018

Under FSC guidelines, the Company should classify credit assets as sound credit assets or unsound

credit assets, with the unsound assets further categorized as special mention, substandard, with collectability highly doubtful and uncollectable, on the basis of the customers' financial position, valuation of collaterals and the length of time the principal repayments or interest payments have become overdue.

The Company made 100%, 50%, 10%, 2% and 1% provisions for credits deemed uncollectable, with collectability highly doubtful, substandard, special mention and sound credit assets (excluding assets that represent claims against an ROC government agency), respectively, as minimum provisions. Furthermore, the FSC stipulated that banks should make at least 1.5% provisions each for sound credit assets in Mainland China (pertaining to short-term advance for trade finance) and loans for house purchases, renovations and constructions, respectively.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors.

C. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the consideration received for the part derecognized is treated in the same way as when the financial asset is derecognized in its entirety. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized on the basis of the relative fair values of those parts.

(2) Equity instruments

The Company classifies the debt and equity instruments issued either as financial liabilities or as equity in accordance with the substance of the contractual agreements and the definitions of a financial liability or an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(3) Financial liabilities

A. Subsequent measurement

Except for the cases stated below, all financial liabilities are measured at amortized cost using the effective interest method:

(A) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or designated as at FVTPL.



A financial liability is classified as designated as at FVTPL upon initial recognition if:

- a. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b. The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss.

(B) Financial guarantee contracts

2018

Financial guarantee contracts issued by the Company, if not designated as at FVTPL, are subsequently measured at the higher of:

- a. The amount of the loss allowance reflecting expected credit loss; and
- b. The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the revenue recognition policies.

2017

Financial guarantee contracts issued by the Company are not designated as at FVTPL and are subsequently measured at the higher of:

- a. The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; or
- b. The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with revenue recognition policies.

B. Derecognition of financial liabilities

The Company derecognizes financial liabilities only when the Company's obligations are discharged or cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(4) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. If the fair value of a derivative is a positive number, the derivative is recognized as an asset and if the fair value is a negative number, the derivative is recognized as a liability.

Before 2017, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. host contracts embedded in financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not

measured at FVTPL.

4.7 Reclassification of financial assets-2017

The reclassification of non-derivative financial assets is governed by IAS 39, which is recognized by the FSC.

4.8 Financial assets and financial liabilities offsetting

Financial assets and financial liabilities are allowed to be offset and expressed in net amount in consolidated balance sheets when amounts to be offset are (1) objects of legally enforceable right to offset, and (2) objects of intended net settlement, i.e. liquidation of assets for discharge of liabilities.

4.9 Income Recognition

The Company allocate prices into the obligations in the contracts after identifying the contracts, and recognize revenues while fulfilling the obligations.

2018

1. Interest revenue

For the interest income of financial assets, when the economic benefits are likely to flow into the Company and the amount of revenues can be measured reliably, all interest income generated from interest-bearing financial instruments should be recognized on the accrual basis in accordance with the effective interest rate.

2. Service fees and commission income

Service fees income and expenses is used when providing loans or other services, the Company allocates the transaction price to each performance obligation after the customer contract recognizes the performance obligation, and recognizes the income when the performance obligations are fulfilled. For labor contracts with contracts with a time interval of less than one year, the major financial components of the contracts are not subject to adjustment.

3. Dividend income

Dividend income from investments is recognized when the shareholders' right to receive payment is established; however, it is under the pre-conditions that the economic benefits associated with the transaction system are likely to flow into the Company and the amount of revenues can be measured reliably.

2017

1. Interest revenue

For the interest income of financial assets, when the economic benefits are likely to flow into the Company and the amount of revenues can be measured reliably, all interest income generated from interest-bearing financial instruments should be recognized on the accrual basis in accordance with the effective interest rate.

For a single or a group of similar financial asset that is reduced due to impairment losses, the subsequently recognized interest income is calculated in accordance with the interest rate that is used for the discounting of future cash flow when measuring the impairment loss.

2. Service fees and commission income

Service fee income and expense are recognized in a lump sum when the loan or other service is provided. If the service fees are earned for completing major projects, they are recognized on the completion of the major projects, such as, the syndicated loan service fee charged collected by the organizing bank. If the service fees income and expenses are earned or paid for the subsequent loan service, they are to be amortized over the service period depending on the materiality, or included for the calculation of loans and receivables' effective interest rate.

3. Dividend income

Dividend income from investments is recognized when the shareholders' right to receive payment is established; however, it is under the pre-conditions that the economic benefits associated with the transaction system are likely to flow into the Company and the amount of revenues can be measured reliably.

4.10 Property and Equipment



The Company's property and equipment are recognized after deducting any accumulated depreciation and accumulated impairment losses from historical cost. The historical cost includes any costs directly attributable to acquiring the assets.

Subsequent expenditure of property and equipment shall be recognized as an asset or be included in the carrying amount of assets, when, and only when it is probable that the future economic benefits that are associated with property and equipment will flow to the bank, and the cost of property and equipment can be measured reliably. The carrying amount of those parts that are replaced is derecognized. A major improvement or repair expense that can extend the benefits over afterward period is regards as capital expenditure; while frequent maintenance or repairs are charged to current expenses.

The Company reviews or adequately adjusted the residual value ant the useful life of assets at each financial year-end.

The land is not affected by depreciation. Depreciation of other assets is amortized over the useful lives using the straight-line method.

Useful lives of major premises and equipment are as follows:

Building 48-60 years

Leasehold improvement 5 years, if the lease period is less than 5 years, then amortize during the lease term

Machinery and equipment 3-20 years

The gains or loss arising from the disposition of an item of property and equipment shall be recognized in "other net non-interest income" in income statements and determined as the difference between the disposal proceeds and the carrying amount of the item.

4.11 Intangible Assets

The Company's intangible assets are purchased computer software, which is capitalized by the cost of purchasing and using the software. This cost is amortized over the estimated useful life. The estimated durability of the software is 6-8 years.

4.12 Foreclosed properties

Foreclosed properties received are stated at acquired cost, On the balance sheet date, the foreclosed properties shall be evaluated at the lower of carrying amount ant net fair market value.

4.13 Lease

The Company's leases are classified as operating leases. Operating lease payments or gains are recognized as profit or loss on a straight-line basis over the lease term, and recognized in other general and administrative expenses and other net non-interest income, respectively.

4.14 Taxation

- (1)The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- (2)The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- (3)Deferred income tax is recognised, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will

not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

- (4) Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- (5) Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- (6) Tax preference given for expenditures incurred on acquisitions of equipment or technology, research and development, employees' training and equity investments is recorded using the income tax credits accounting

4.15 Retirement Benefits

(1) Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

(2) Pensions

a. Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

b. Defined benefit plans

- (a) Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior period. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) instead.
- (b) Actuarial gains and losses arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- (c) Past service costs are recognised immediately in profit or loss.

(3) Employees preferential deposit benefit

The Company offer special rate for employees in deposit with the Company, including the offering of fixed amount of preferred deposits for current employees and preferred deposits at fixed amount for retired employees and current employees after retirement. The difference between the interest rate for the aforementioned preferred deposits and market rate shall fall within the scope of employee welfare.

According to the "Criteria for the Compilation of Financial Statements by Public Banks", the interest from the preferred deposit for employees prearranged after retirement in excess of the interest under regular market rate shall be subject to actuarial calculation at the time of the retirement of the employees pursuant to IAS 19, "Employee Benefits" as recognized by FSC. However, the parameters for the assumptions in the actuarial calculation may be regulated by the competent authority, comply accordingly, if applicable.

(4) Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their



stockholders' meeting subsequently, the differences should be recognised based on the accounting for changes in estimates.

(5) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense when it can no longer withdraw an offer of termination benefits or it recognises related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

4.16 Provisions, Contingent Liabilities and Contingent Assets

A provision shall be recognized when:

- a. An entity has a present obligation (legal or constructive) as a result of a past event;
- b. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- c. A reliable estimate can be made of the amount of the obligation.

The Company does not recognize provisions for future operating losses.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized.

Provisions are subsequently measured by the present value of the expected expenditures to settle the obligations. Discount rate is the pre-tax discount rate and is adjusted in time to reflect current market assessments of the time value of money and the risks specific to the liability.

A contingent liability is:

- a. A possible obligation that arises from past events and 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 entity; or
- b. A present obligation that arises from past events but is not recognized because:
 - (1) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (2) The amount of the obligation cannot be measured with sufficient reliability.

The Company does not recognize a contingent liability but disclose it appropriately in accordance with related guidelines.

A contingent asset is a possible asset that arises from past events and 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 entity. The Company does not recognize a contingent asset. A contingent asset is disclosed appropriately in accordance with related guidelines, where an inflow of economic benefits is probable.

4.17 Financial bond payable

The financial bonds payable of the Company are measured as amortized cost amortised using the effective interest method.

4.18 Share capital

A. Share capital issuance cost

The incremental cost directly attributable to the issue of new shares is deducted from equity.

B. Common stock dividend

If the dividend announcement date is later than the balance sheet date, it will not be recognized and will only be disclosed in the notes after the period.

4.19 comparison information

Except as permitted or required by the FSC-endorsed IFRSs, the Company discloses the prior period comparison information of all current financial report amount.

When accounting policy changes or reclassifications occur, the comparative information industry has been adjusted and compared with the financial information for the current year.

4.20 Operating department report

The reporting by the Company's operations department is consistent with the internal report provided to the chief operating decision maker. The chief operating decision maker of the Company is the board of directors of the Company.

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

The Company's accounting policies, accounting assumptions and estimates have significant impact on the financial statements. Accordingly, the management exercised appropriate professional judgment in the preparation of the financial statements.

The assumptions and estimates involve significant risks that significant adjustments might result in changes in the carrying amounts of assets and liabilities in the next fiscal year. The assumptions and estimates made were the best estimates based on the FSC-endorsed IFRSs. The estimates and assumptions are based on historical experience and other factors, including future expectations and are continuously assessed. The accounting policies and management's judgment that could have significant impact on the financial statements.

5.1 Important judgment of accounting policy

Business model judgment on financial assets classification (for 2018)

The Company assessed the business model of the financial assets on the basis of the common management platform of a group of financial assets in order to achieve the designated business objective. All relevant evidence shall be considered with sound judgement, including method for the measurement of asset performance, risks affecting performance, and method for determining remuneration to related managers. The Company shall continue to evaluate whether the judgement of the business model is appropriate, and keep track of financial assets at amortized cost and investment of debt instruments - FVIOCI before derecognition on maturity so as to understand whether the reason of the disposition is congruent with the business model. If it is found the business model has changed, the Company shall adjust the classification.

5.2 Significant accounting estimates and assumptions

(1) Estimated impairment of financial assets (for 2018)

The provision for impairment of receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates. If the actual future cash inflows are less than expected, a material impairment loss may arise.

(2) Impairment losses on loans (for 2017)

The Company monthly assesses loans collectively. When determining whether an impairment loss should be recognized, the Company mainly seeks for observable evidence that indicates impairment. Objective evidence may include the Company's past difficulty in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables. The management uses past loss experience on assets with similar credit risk characteristics to analyze the expected future cash flows. The Company reviews the methods and assumptions of cash flow estimation regularly to eliminate the difference between expected and actual loss.

(3) Fair value measurement and evaluation process (for 2018)

When assets and liability at fair value with no active market quote, the Company determines whether to outsource evaluation and technique of assessing appropriate fair value according to relevant regulation and judgment.

If the first-level input value is not available while estimating fair value, the Company will refer to the financial status, operating outcome, recent trading price, non-active market quote on same equity investment, active market quote on similar instrument and comparable evaluation multiples for the investment in unlisted stocks. As for derivatives, similar market quote, interest rate and characteristics of derivative instrument will determine the input.



Please refer to Note 12.3 for the description of fair value evaluation technique and input.

(4) Calculation of accrued pension obligations

When calculating the present value of defined pension obligations, the Company must apply judgments and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and future salary growth rate. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations. As of December 31, 2018, the accrued pension obligations was \$256,878 thousand.

(5) Taxation

The final amount of the tax is determined by many transactions and calculations. The Company's additional recognition of income tax liabilities arising from tax issues is based on a prudent assessment of the subsequent development of tax issues. If there is a difference between the final tax and the initial recognized amount, the difference will affect the recognition of current income tax and deferred income tax.

Please refer to Note 6.35 for the description of deferred income tax items.

6. EXPLANATION OF SIGNIFICANT ACCOUNTS

6.1 Cash and cash equivalents

Items	December 31, 2018	December 31, 2017
Cash on hand	\$1,334,424	\$1,211,271
Checks for clearing	1,017,453	1,114,722
Due from banks	587,578	1,832,180
Total	\$2,939,455	\$4,158,173

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

Item	December 31, 2018	December 31, 2017
Cash and cash equivalents, ending balance in the balance sheets	\$2,939,455	\$4,158,173
Due from Central Bank and call loans to other banks in accordance with cash and cash equivalents under IAS 7 "Statement of Cash Flows"	6,796,591	7,403,576
Securities purchased under resell agreements that meet the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows"	5,242,712	9,225,080
Cash and cash equivalents, ending balance in the statements of cash flows	\$14,978,758	\$20,786,829

6.2 Due from Central Bank and call loans to banks

Items	December 31, 2018	December 31, 2017
Deposit reserves in Central Bank		
Category A	\$6,165,649	\$7,209,142
Category B	5,458,283	5,368,186
Foreign currency deposits	46,095	44,648
National treasury department	977	961
Subtotal	\$11,671,004	\$12,622,937
Interbank settlement funds	\$608,303	\$501,614
Call loans to banks	583,870	148,825
Total	\$12,863,177	\$13,273,376

The deposit reserves deposited at the Central Bank are determined monthly at prescribed rates based on the average balances of deposits. Category A deposit reserve account is non-interest bearing and withdrawals can be made at any time. Category B reserve account is interest-bearing and no withdrawal is permitted unless upon monthly adjustment of the account or otherwise specifically provided by law.

6.3 Financial instruments at fair value through profit or loss

Items	December 31, 2018	December 31, 2017
Financial assets mandatorily measured at fair value through profit or loss		
Funds	\$37,220	\$ —
Bonds	65,640	—
Overseas bonds	247,761	—
Subtotal	\$350,621	\$ —
Financial derivatives		
Forward contracts	\$122	\$ —
Foreign exchange swaps	33,647	—
Subtotal	\$33,769	\$ —
Held-for-trading financial assets		
Short-term notes	\$ —	\$918,690
Funds	—	39,673
Stock	—	13,606
Bonds	—	68,065
Overseas bonds	—	191,631
Subtotal	\$ —	\$1,231,665
Financial derivatives		
Forward contracts	\$ —	\$307
Foreign exchange swaps	—	45,077
Subtotal	\$ —	\$45,384
Total	\$384,390	\$1,277,049

1. Please refer to Note 6.16 for details of derivative contracts that have yet to mature as of December 31, 2018 and 2017.

2. Please refer to Note 8 for details of financial assets at FVTPL provided as collateral for the various businesses as of December 31, 2018 and 2017.

6.4 Financial assets at fair value through profit or loss - 2018

Items	December 31, 2018
Investments in equity instruments	
Listed shares and emerging stocks	\$262,593
Foreign listed shares and emerging stocks	\$4,844
Unlisted shares	1,072,121
Subtotal	1,339,558
Evaluation adjustment	89,871
Total	1,429,429
Investments in debt instruments	
Foreign preferred stock	\$170,039
Government bonds	4,227,042
Foreign financial bonds	958,405
Foreign corporate bonds	7,974,379
Foreign government bonds	3,653,483
Subtotal	16,983,348
Evaluation adjustment	(46,434)
Subtotal	16,936,914
Total	\$18,366,343



1. Part of the equity instrument investments held by the Company are invested in medium and long-term strategic objectives and are expected to benefit from long-term investments. The management of the Company considers that if the short-term fair value fluctuations of these investments are included in the profit or loss, they are inconsistent with the aforementioned long-term investment plans, and therefore the designated investment is selected to be measured at fair value through other comprehensive gains and losses.
2. As of December 31, 2018, the book value of the above-mentioned financial instruments held at fair value through other comprehensive gains and losses for conditional trading was \$ 2,742,846 thousand.
3. Please refer to Note 8 for information on pledges of equity instrument investment measured by fair value through other comprehensive gains and losses.
4. Please refer to Note 12.4 for the relevant credit risk management and assessment methods.
5. The Company considers the historical default loss rate provided by external rating agencies to measure the 12-month expected credit loss or lifetime expected credit loss. The Company's current credit risk assessment mechanism and total carrying amount of each credit rating instrument investment are as follows: (including debt instrument investments measured at fair value through other comprehensive gains and losses and financial assets measured at amortized cost)

Credit rating	Definition	Expected credit loss recognition	Expected credit loss rate	Carrying amount as of December 31, 2018
stage1	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12 months expected credit loss	0.00%~0.103%	\$58,328,710

6. The changes in the allowance for loss of investment in debt instruments measured at fair value through other comprehensive gains and losses are as follows:

	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired financial assets)
Balance at January 1, 2018	\$ —	\$ —	\$ —
Impact of retrospective application of IFRS 9	2,063	—	—
Balance at January 1, 2018	\$2,063	\$ —	\$ —
Add : Impairment loss	3,664	—	—
Currency translation differences	(8)	—	—
Balance at December 31, 2018	\$5,719	\$ —	\$ —

6.5 Debt instruments at amortized cost - 2018

Items	December 31, 2018
Bonds	\$11,628,341
NCD issued by the Central Bank	18,700,000
Foreign bonds	11,017,021
Subtotal	\$41,345,362
Less: accumulated impairment	(3,407)
Total	\$41,341,955

1.The changes in the allowance for investment in debt instruments accounted at amortized cost are as follows:

	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired financial assets)
Balance at January 1, 2018	\$ —	\$ —	\$ —
Impact of retrospective application of IFRS 9	1,722	—	—
Balance at January 1, 2018	\$1,722	\$ —	\$ —
Add : Impairment loss	1,654	—	—
Currency translation differences	31	—	—
Others	—	—	—
Balance at December 31, 2018	\$3,407	\$ —	\$ —

2.As of December 31, 2018, the above financial assets at amortized cost provided as the underlying securities for RP/RS trading was \$8,766,335 thousand.

3.Please refer to Note 8 for the financial assets measured at amortized cost provided as collateral guarantees.

4.Please refer to Note 12.4 for the relevant credit risk management and assessment methods.

6.6 Securities purchased under resell agreements

Items	December 31, 2018	December 31, 2017
Short-term notes	\$4,264,712	\$8,795,046
Bonds (government and corporate bonds)	978,000	430,034
Total	\$5,242,712	\$9,225,080

Securities purchased under resell agreement sold at agreed prices of \$5,244,697 thousand and \$9,227,219 thousand, respectively, as of December 31, 2018 and 2017.

No bonds with resell agreements were provided as underlying securities for repurchase agreements as of December 31, 2018 and 2017.

6.7 Receivables, net

Items	December 31, 2018	December 31, 2017
Credit card receivables	\$150,727	\$163,673
Credit card receivables on receipt	3,822	2,824
Subtotal	\$154,549	\$166,497
Accrued interest	\$679,071	\$539,460
Acceptances	283,455	116,664
Revenues receivable	159,777	143,335
Others	96,777	191,839
Settlements receivable	866,999	12,428
Refund of capital reduction receivables	—	78,989
Total	\$2,240,628	\$1,249,212
Less: Allowance for possible losses	(66,127)	(97,794)
Net	\$2,174,501	\$1,151,418

A. The movements in Allowance for impairment losses for the year ended December 31, 2018 are as follows :

	12-month expected credit losses	Lifetime expected credit losses (Group assessment)	Lifetime expected credit losses (Individual assessment)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Total impairment recognised under IFRS 9	Impairment recognised under the regulation governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans	Total
Balance at the beginning of the period	\$3,691	\$350	\$109,416	\$6,227	\$ —	\$119,684	\$1,911	\$121,595
Changes from financial instruments recognised at the beginning of the period :								
- Transferred to lifetime expected credit losses	1	66	—	—	—	67	—	67
- Transferred to credit impaired financial asset	(25)	(254)	(4,171)	8,716	—	4,266	—	4,266
- Transferred to 12-month expected credit losses	7,393	(133)	—	—	—	7,260	—	7,260
- Derecognised financial assets	(4,633)	(7)	(36,157)	(5,643)	—	(46,440)	—	(46,440)
Purchased or originated credit-impaired financial assets	4,479	1	88	1,734	—	6,302	—	6,302
Different in impairment recognised under the regulation governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans	—	—	—	—	—	—	(465)	(465)
Write-offs	—	—	(25,239)	(1,683)	—	(26,922)	—	(26,922)
Recovery of written-off credits	—	—	—	735	—	735	—	735
Foreign exchange and others changes	—	—	—	76	—	76	—	76
Balance at the end of the period	\$10,906	\$23	\$43,937	\$10,162	\$ —	\$65,028	\$1,446	\$66,474

(Note) The number of impacts of IFRS 9 is already included.

The above changes in allowance losses include short-term advances and other financial assets – changes in allowances for collections of non-lending remittances.

B. The changes in the total book value for the year ended December 31, 2018 are as follows:

	12-month expected credit losses	Lifetime expected credit losses (Group assessment)	Lifetime expected credit losses (Individual assessment)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Total
Balance at the beginning of the period	\$1,148,659	\$7,730	\$89,394	\$3,429	\$1,249,212
Transferred to lifetime expected credit losses	(304)	722	—	(19)	399
Transferred to credit impaired financial asset	(2,592)	(6,465)	5,308	12,068	8,319
Transferred to 12-month expected credit losses	153,027	(437)	—	(3,226)	149,364
Newly initiated or purchased discounts and loans and receivables	1,282,494	8,131	8,000	2,198	1,300,823
Write-offs	—	—	(2,239)	(759)	(2,998)
Derecognition	(406,275)	(694)	(56,159)	(1,363)	(464,491)
Balance at the end of the period	\$2,175,009	\$8,987	\$44,304	\$12,328	\$2,240,628

6.8 Discounts and loans, net

Items	December 31, 2018	December 31, 2017
Discounts	\$59,221	\$27,373
Overdrafts	15,346	15,534
Short-term loans	39,143,117	39,103,962
Short-term secured loans	25,733,922	24,467,844
Medium-term loans	31,818,649	27,167,839
Medium-term secured loans	24,887,374	26,769,666
Long-term loans	8,644,710	9,679,749
Long-term secured loans	51,832,873	50,377,302
Import/export bills negotiated	47,094	9,226
Overdue loans	1,272,822	703,198
Subtotal	183,455,128	178,321,693
Less: Allowance for possible losses	(2,210,904)	(2,461,542)
Net	181,244,224	175,860,151

1. The changes in the allowance for bad debts for the year ended December 31, 2018 are as follows:

	12-month expected credit losses	Lifetime expected credit losses (group assessment)	Lifetime expected credit losses (individual assessment)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated)	Lifetime expected credit losses (credit impaired financial assets that were purchased or originated)	Total impairment recognised under IFRS 9	Impairment recognised under the regulation governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans	Total
Balance at the beginning of the period	\$826,187	\$15,122	\$369,295	\$327,432	\$ —	\$1,538,036	\$923,506	\$2,461,542
Changes from financial instruments recognised at the beginning of the period:								
- Transferred to lifetime expected credit losses	(76)	923	—	(37)	—	810	—	810
- Transferred to credit impaired financial asset	(13,453)	(13,200)	741,250	427,830	—	1,142,427	—	1,142,427
- Transferred to 12-month expected credit losses	370,452	(45)	—	(9)	—	370,398	—	370,398
- Derecognised financial assets	(523,557)	(1,576)	(7,228)	(290,746)	—	(823,107)	—	(823,107)
Originated or purchased new financial assets	372,353	171	—	10,948	—	383,472	—	383,472
Difference in impairment recognised under the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans	—	—	—	—	—	—	(344,226)	(344,226)
Write-off of uncollectible amount	—	—	(817,195)	(297,724)	—	(1,114,919)	—	(1,114,919)
Rebate after Write-off of uncollectible amount	—	—	—	127,290	—	127,290	—	127,290
Exchange and other changes	—	—	—	7,217	—	7,217	—	7,217
Balance at the end of the period	\$1,031,906	\$1,395	\$286,122	\$312,201	\$ —	\$1,631,624	\$579,280	\$2,210,904

2. The change in the total book value for the year ended December 31, 2018 is as follows:

	12-month expected credit losses	Lifetime expected credit losses (group assessment)	Lifetime expected credit losses (individual assessment)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated)	Total
Balance at the beginning of the period	\$175,324,985	\$1,040,238	\$651,891	\$1,304,579	\$178,321,693
Transferred to lifetime expected credit losses	(114,650)	133,308	—	(4,503)	14,155
Transferred to credit impaired financial asset	(1,396,211)	(799,918)	1,838,196	699,131	341,198
Transferred to 12-month expected credit losses	32,990,547	(75,436)	—	(27,049)	32,888,062
Newly initiated or purchased discounts and loans and receivables	64,939,113	27,512	—	49,517	65,016,142
Write-offs	—	—	(817,195)	(297,724)	(1,114,919)
Derecognition	(91,320,295)	(111,095)	(12,207)	(567,606)	(92,011,203)
Balance at the end of the period	\$180,423,489	\$214,609	\$1,660,685	\$1,156,345	\$183,455,128

3. The Company provided appropriate allowances for the assessment of discounts and loans and receivables.

The changes in allowances for discounts and loans and receivables as of December 31, 2017 are as follows:

(1) Changes in allowance for credit losses with respect to discounts and loans:

Items	For the year ended December 31, 2017
Balance at January 1, 2017	\$2,034,342
Provisions	561,245
Write-offs	(323,664)
Recovery of written-off credits	205,696
Effects of exchange rate changes and others	(16,077)
Balance at December 31, 2017	\$2,461,542

(2) Changes in allowance for credit losses with respect to accounts receivable:

Items	For the year ended Dec. 31, 2017
Balance at January 1, 2017	\$87,303
Provisions (reversal)	17,829
Write-offs	(8,601)
Recovery of written-off credits	1,325
Effects of exchange rate changes and others	(62)
Balance at December 31, 2017	\$97,794



(3) Changes allowance for credit losses with respect to overdue accounts other than loans:

Items	For the years ended December 31, 2017
Balance at January 1, 2017	\$11,440
Provisions	13,767
Write-offs	(1,648)
Recovery of written-off credits	—
Effects of exchange rate changes and others	—
Balance at December 31, 2017	\$23,559

(4) The Company recognized \$590,254 thousand of bad debt expense and allowance for bad debt \$592,841 thousand; reversal of guarantee reserves (\$2,587) thousand as of the year ended December 31, 2017.

6.9 Available-for-sale financial assets, net - 2017

Items	December 31, 2017
Bonds (government and corporate bonds)	\$14,545,620
Stocks	171,533
NCD issued by the Central Bank	25,030,195
Foreign bonds	14,093,934
Subtotal	\$53,841,282
Less: accumulated impairment	—
Total	\$53,841,282

1. Please refer to Note 8 for details of available-for-sale financial assets held by the Company provided as collateral for the various businesses as of December 31, 2017.
2. The above available-for-sale financial assets of the Company provided as the underlying securities for RP/RS trading as of December 31, 2017 amounted to \$5,556,044 thousand.
3. The Company sold the financial assets held to maturity within three months from January to December, 2017, at the price of \$985,287 thousand, and recognized \$7,244 thousand of gain (loss). In addition, the remaining portion of \$24,209,120 thousand in fair value were reclassified as available-for-sale financial assets in December 31, 2017.

6.10 Other financial assets, net

Items	December 31	
	2018	2017
Equity investments carried at cost	\$ —	\$1,082,580
Certificates of deposit with maturities of more than three months	22,370	—
Overdue receivables	346	23,547
Short-term advances	18,745	19,018
Remittance purchased	31	—
Subtotal	\$41,492	\$1,125,145
Less: allowance for doubtful accounts	(347)	(23,559)
Net	\$41,145	\$1,101,586

6.11 Properties and equipment, net

Name of Asset	December 31, 2018			
	Cost	Accumulated depreciation	Accumulated impairment	Carrying amount
Land	\$2,031,893	\$ —	\$ —	\$2,031,893
Buildings	1,218,188	513,665	—	704,523
Machinery and computer equipment	422,432	302,248	—	120,184
Transportation equipment	12,372	11,989	—	383
Miscellaneous equipment	77,126	69,010	—	8,116
Leasehold improvement	144,556	121,836	—	22,720
Total	\$3,906,567	\$1,018,748	\$ —	\$2,887,819

Name of Asset	December 31, 2017			
	Cost	Accumulated depreciation	Accumulated impairment	Carrying amount
Land	\$2,031,893	\$ —	\$ —	\$2,031,893
Buildings	1,218,188	491,919	—	726,269
Machinery and computer equipment	434,421	279,501	—	154,920
Transportation equipment	13,910	13,196	—	714
Miscellaneous equipment	76,951	68,929	—	8,022
Leasehold improvement	135,764	117,373	—	18,391
Total	\$3,911,127	\$970,918	\$ —	\$2,940,209

1.Changes in property and equipment:

Items	Land	Building	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Total
Cost							
Balance at January 1, 2018	\$2,031,893	\$1,218,188	\$434,421	\$13,910	\$76,951	\$135,764	\$3,911,127
Addition	—	—	6,655	194	2,550	8,792	18,191
Disposal	—	—	(18,675)	(1,732)	(2,375)	—	(22,782)
Foreign exchange differences	—	—	31	—	—	—	31
Balance at December 31, 2018	\$2,031,893	\$1,218,188	\$422,432	\$12,372	\$77,126	\$144,556	\$3,906,567
Accumulated depreciation							
Balance at January 1, 2018	\$ —	\$491,919	\$279,501	\$13,196	\$68,929	\$117,373	\$970,918
Depreciation	—	21,746	41,414	525	2,456	4,463	70,604
Disposal	—	—	(18,675)	(1,732)	(2,375)	—	(22,782)
Foreign exchange differences	—	—	8	—	—	—	8
Balance at December 31, 2018	\$ —	\$513,665	\$302,248	\$11,989	\$69,010	\$121,836	\$1,018,748
Balance at December 31, 2018	\$2,031,893	\$704,523	\$120,184	\$383	\$8,116	\$22,720	\$2,887,819



Items	Land	Building	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Total
Cost							
Balance at January 1, 2017	\$2,031,893	\$1,218,188	\$445,246	\$16,722	\$80,445	\$125,204	\$3,917,698
Addition	—	—	87,421	70	1,613	11,215	100,319
Disposal	—	—	(98,210)	(2,882)	(5,106)	(655)	(106,853)
Net exchange difference	—	—	(36)	—	(1)	—	(37)
Balance at December 31, 2017	\$2,031,893	\$1,218,188	\$434,421	\$13,910	\$76,951	\$135,764	\$3,911,127
Accumulated depreciation							
Balance at January 1, 2017	\$ —	\$470,172	\$339,556	\$15,291	\$71,720	\$113,706	\$1,010,445
Depreciation expenses	—	21,746	38,148	787	2,316	4,322	67,319
Disposal	—	—	(98,179)	(2,882)	(5,106)	(655)	(106,822)
Net exchange difference	—	1	(24)	—	(1)	—	(24)
Balance at December 31, 2017	\$ —	\$491,919	\$279,501	\$13,196	\$68,929	\$117,373	\$970,918
Balance at December 31, 2017	\$2,031,893	\$726,269	\$154,920	\$714	\$8,022	\$18,391	\$2,940,209

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

Items	December 31, 2018	December 31, 2017
Property and equipment additions	\$18,191	\$100,319
Foreign exchange differences	23	(13)
Consideration paid for property and equipment	\$18,214	\$100,306

6.12 Intangible assets, net

Items	December 31, 2018	December 31, 2017
Cost of computer software	\$322,051	\$298,630
Less: accumulated amortization	(203,248)	(177,384)
accumulated impairment	—	—
Net	\$118,803	\$121,246

Changes in intangible assets:

Items	For the year ended December 31	
	2018	2017
Cost		
Balance, January 1	\$298,630	\$216,737
Additions	28,004	81,893
Disposals	(4,583)	—
Balance, December 31	\$322,051	\$298,630
Accumulated amortisation		
Balance, January 1	\$177,384	\$150,063
Amortisation expense	30,447	27,321
Disposals	(4,583)	—
Balance, December 31	\$203,248	\$177,384
Intangible assets, net	\$118,803	\$121,246

6.13 Other assets, net

Items	December 31, 2018	December 31, 2017
Refundable deposits	\$66,015	\$99,314
Prepayments	39,223	41,593
Miscellaneous assets	11,365	10,439
Total	\$116,603	\$151,346

6.14 Due to the Central Bank and other banks

Items	December 31, 2018	December 31, 2017
Due to the Central Bank	\$68,948	\$68,975
Due to banks	294,268	199,067
Due to Chunghwa Post	99,210	166,610
Overdrafts on banks	23,285	-
Calls loan from other (central) banks	8,209,745	5,488,495
Total	\$8,695,456	\$5,923,147

6.15 Financial liabilities at fair value through profit or loss

Items	December 31, 2018	December 31, 2017
Derivatives		
Forwards	\$116	\$701
Foreign exchange swaps	199,690	288
Total	\$199,806	\$989

The Company engaged in derivative transactions for the years ended December 2018 and 2017 for the purpose of meeting clients' trading needs, squaring positions, meeting capital requirements in different currencies and hedging against risks arising from interest rate fluctuations. The hedging strategy of the Company primarily aims at hedging against risks arising from market price or cash flow fluctuations. As of December 31, 2018 and 2017, the contractual amounts (notional principal) of the derivative contracts were as follows:

Items	Contractual Amount	
	December 31, 2018	December 31, 2017
Forward exchange contracts	\$72,879	\$78,391
Foreign exchange swap contracts	7,165,979	1,395,806

6.16 Securities sold under repurchase agreement

Items	December 31, 2018	December 31, 2017
Government bonds	\$34,457	\$35,399
Foreign government bonds	1,593,630	550,289
Foreign corporate bonds	3,123,504	690,175
Financial bonds	5,679,250	4,091,542
Total	\$10,430,841	\$5,367,405



Securities sold with repurchase agreement purchased at agreed prices of \$10,498,949 thousand and \$5,391,971 thousand as of December 31, 2018 and 2017, respectively.

6.17 Payables

Items	December 31, 2018	December 31, 2017
Payroll transfers payable	\$1,944,357	\$1,661,702
Checks for clearance	1,017,453	1,114,722
Interest payable	372,962	272,837
Outstanding bills for collection	26,870	19,796
Accrued expenses	267,370	248,131
Acceptances	285,074	118,606
Collections for others	55,662	73,966
Payable for settlement of securities	—	10,382
Accounts payable	3,454	1,908
Other payables	132,393	137,613
Spot Exchange Payable - foreign Currencies	131	—
Total	\$4,105,726	\$3,659,663

6.18 Deposits and remittances

Items	December 31, 2018	December 31, 2017
Checking account deposits	\$2,692,541	\$2,563,161
Public treasury deposits	11,511,365	11,910,382
Demand deposits	29,590,744	27,015,898
Time deposits	55,029,322	64,976,536
Negotiable certificate of deposits	460,400	501,200
Demand savings deposits	56,928,499	56,338,279
Time savings deposits	67,072,770	66,441,526
Remittances	472	1,846
Total	\$223,286,113	\$229,748,828

6.19 Bonds payables

Items	Offering Period Interest Rate	December 31, 2018	December 31, 2017
Subordinate financial bonds first issue, 2013	2013.8.6-2020.8.6 2.1%	\$1,300,000	\$1,300,000
Subordinate financial bonds second issue, 2013	2013.9.5-2020.9.5 2.1%	700,000	700,000
Subordinate financial bonds first issue, 2014	2014.3.25-2021.3.25 1.506%-1.50944%	1,200,000	1,200,000
Subordinate financial bonds second issue, 2014	2014.10.29-2021.10.29 2.35%	650,000	650,000
Subordinate financial bonds third issue, 2014	2014.12.3-2021.12.3 2.35%	150,000	150,000
Subordinate financial bonds first issue, 2018	2018.03.15-2025.03.15 1.30%	1,500,000	-
Subordinate financial bonds second issue, 2018	2018.09.12-No expiration date 2.60%	800,000	-
Total		\$6,300,000	\$4,000,000

6.20 Provisions

Items	December 31, 2018	December 31, 2017
Provision for employee benefit liabilities	\$256,878	\$292,316
Reserve for guarantee liabilities	68,383	57,713
Reserve for losses on financing commitment	47,572	—
Others liabilities	41,056	—
Others	18,941	17,167
Total	\$432,830	\$367,196

1. Employee benefit liabilities reserve is detailed as follows:

Items	December 31, 2018	December 31, 2017
Recognized in the balance sheet:		
-Employee benefit liabilities reserve	\$193,305	\$238,258
-Reserve for guarantee liability	63,573	54,058
Total	\$256,878	\$292,316

1. Reserve for employee benefit liabilities:

(1) Determined appropriation plan

- A. The pension system under the "Labor Pension Act" is the determined pension plan management by the government that required regular contribution. An appropriation of funds at 6% of the monthly salary of each employee shall be made to the personal special account of the employee at the Bureau of Labor.
- B. The Company had recognized \$20,074 and \$17,960 thousand of pension expenses for the years ended December 31, 2018 and 2017, respectively.

(2) Defined benefit plan

- A. The Company's pension system under the "Labor Standards Act" of the R.O.C. is a defined benefit pension plan. Pension payment is calculated in accordance with the years of service and the average salary six months prior to the authorized retirement date. The Company has contributed to the employee pension fund at 8% of the monthly based on the total salaries to Labor Pension Reserve Supervisory Committee for deposit at the special account in the Company of Taiwan bearing the title of the committee. If the balance of the special account before the end of the fiscal year is insufficient to settle the payment for employees qualified for retirement in the next fiscal year, the company shall make up the difference in lump sum by the end of March of the next fiscal year.

The special account has been commissioned to the Bureau of Labor Fund of the Ministry of Labor Affairs for management. The Company contained in the financial statements exercises no influence on the right of the bureau in its investment management strategy.

- B. The amounts arising from the defined benefit obligation of the Company in the balance sheets were as follows:

Items	December 31	
	2018	2017
Present value of defined benefit obligation	\$1,727,184	\$1,641,222
Fair value of plan assets	(1,533,879)	(1,402,964)
Net defined benefit liabilities	\$193,305	\$238,258



Movements of the net defined benefit liabilities were as follows:

Items	Year Ended December 31, 2018		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance, beginning of year	\$1,641,222	\$1,402,964	\$238,258
Service cost			
Current service cost	\$104,268	\$—	\$104,268
Interest expense (income)	22,977	20,695	2,282
Recognized in profit or loss	\$127,245	\$20,695	\$106,550
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	\$—	\$35,701	(\$35,701)
Actuarial loss (gain) -			
Changes in financial assumptions	16,398	—	16,398
Experience adjustments	45,164	—	45,164
Recognized in other comprehensive income	\$61,562	\$35,701	\$25,861
Contributions from the employer	\$—	\$141,414	(\$141,414)
Benefits paid from plan assets	(102,845)	(66,895)	(35,950)
Balance, end of year	\$1,727,184	\$1,533,879	\$193,305

Items	Year Ended December 31, 2017		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance, beginning of year	\$1,587,507	\$1,288,453	\$299,054
Service cost			
Current service cost	\$106,063	\$—	\$106,063
Interest expense (income)	23,813	20,680	3,133
Recognized in profit or loss	\$129,876	\$20,680	\$109,196
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	\$—	(\$8,075)	\$8,075
Actuarial loss (gain) -			
Changes in financial assumptions	16,883	—	16,883
Experience adjustments	6,993	—	6,993
Recognized in other comprehensive income	\$23,876	(\$8,075)	\$31,951
Contributions from the employer	\$—	\$150,449	(\$150,449)
Benefits paid from plan assets	(100,037)	(48,543)	(51,494)
Balance, end of year	\$1,641,222	\$1,402,964	\$238,258

C. Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- a. Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management.

However, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any

shortfall in the event that the rate of return is less than the required rate of return.

- b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

D. The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions of the actuarial valuation were as follows:

Items	Measurement Date	
	Decembe 31, 2018	Decembe 31, 2017
Discount rate	1.30%	1.40%
Future salary increase rate	2.00%	2.00%
The weighted average duration of the defined benefit obligation	11 years	12 years

- a. The assumption of future mortality is based on the improved annual life table estimate.
- b. If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

Items	December 31	
	2018	2017
Discount Rate		
0.25% higher	(\$40,594)	(\$41,774)
0.25% lower	\$41,953	\$43,245
Expected rates of salary increase		
1% higher	\$176,535	\$182,443
1% lower	(\$157,763)	(\$161,943)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

E. The Company expects to make contributions of \$141,414 thousand to the defined benefit plans for the year ended December 31, 2019.

(3) Employees preferential deposit plan

A. Please refer to Note 4.16 for the company pays the retired employees preferential deposit obligation, which is according to internal regulations.

B. The amounts arising from the defined benefit obligation of the Company in the balance sheets were as follows:

Items	December 31	
	2018	2017
Present value of defined benefit obligation	\$63,573	\$54,058
Fair value of plan assets	—	—
Net defined benefit liabilities	\$63,573	\$54,058

Movements of the net defined benefit liabilities were as follows:

Items	Year Ended December 31, 2018		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance, beginning of year	\$54,058	\$—	\$54,058
Service cost			
Current service cost	\$—	\$—	\$—
Expense difference	19,805	—	19,805
Interest expense (income)	1,822	—	1,822
Recognized in profit or loss	\$21,627	\$—	\$21,627
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	\$—	\$—	\$—
Actuarial loss (gain) -			
Experience adjustments	6,475	—	6,475
Recognized in other comprehensive income	\$6,475	\$—	\$6,475
Contributions from the employer	\$—	\$—	\$—
Benefits paid from plan assets	(18,587)	—	(18,587)
Balance, end of year	\$63,573	\$—	\$63,573

Items	Year Ended December 31, 2017		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance, beginning of year	\$50,281	\$—	\$50,281
Service cost			
Current service cost	\$—	\$—	\$—
Expense difference	18,079	—	18,079
Interest expense (income)	1,682	—	1,682
Recognized in profit or loss Remeasurement	\$19,761	\$—	\$19,761
Return on plan assets (excluding amounts included in net interest expense)	\$—	\$—	\$—
Actuarial loss (gain) -			
Experience adjustments	1,037	—	1,037
Recognized in other comprehensive income	\$1,037	\$—	\$1,037
Contributions from the employer	\$—	\$—	\$—
Benefits paid from plan assets	(17,021)	—	(17,021)
Balance, end of year	\$54,058	\$—	\$54,058

C. The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions of the actuarial valuation were as follows:

Items	Measurement Date	
	Decembre 31, 2018	Decembre 31, 2017
Discount rate	4.00%	4.00%
Return on deposited fund	2.00%	2.00%
Preferential deposit probability of future cancellation	50.00%	50.00%
The weighted average duration of the defined benefit obligation	10 years	10 years

- The assumption of future mortality is based on the improved annual life table estimate.
- If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

Items	December 31	
	2018	2017
Discount Rate		
1% higher	(\$4,024)	(\$3,362)
1% lower	\$4,609	\$3,849

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

D. The Company expects to make contributions of \$18,587 thousand to the employees preferential deposit plan for the year ended December 31, 2019.

2.Changes in reserve for guarantee liabilities:

Items	For the ended December 31	
	2018	2017
Balance at beginning of period	\$57,713	\$60,300
Effect of retrospective application of IFRS 9	16,026	—
Provisions (reversal)	(5,356)	(2,587)
Balance at end of period	\$68,383	\$57,713

3.The changes in the preparation of financing commitments are as follows

Items	For the year ended December 31,2018
Balance at beginning of period	\$—
Effect of retrospective application of IFRS 9	65,250
Reclassified	(31,240)
Provisions (reversal)	12,753
Difference in exchange rate	809
Balance at end of period	\$47,572



4.Changes in reserve for others liabilities:

Items	For the year ended December 31,2018
Balance at beginning of period	\$—
Reclassified	31,240
Provisions (reversal)	9,816
Difference in exchange rate	—
Balance at end of period	\$41,056

6.21 Other Liabilities

Items	December 31, 2018	December 31, 2017
Guarantee deposits received	\$33,173	\$35,149
Advance receipts	65,456	59,545
Temporary receipts and suspense accounts	4,397	4,091
Other	34	32
Total	\$103,060	\$98,817

6.22 Equity

1. Common stock

The number of outstanding shares of common stock issued by the Company and the amount were as below:

	For the year ended December 31, 2018	
	Quantity of shares (1,000 shares)	Amount
January 1	1,003,224	\$10,032,238
Capital increase by retained earning	20,064	200,645
Capital surplus transferred	17,055	170,548
December 31	1,040,343	\$10,403,431

	For the year ended December 31, 2017	
	Quantity of shares (1,000 shares)	Amount
January 1	823,224	\$8,232,238
Capital increase by cash	180,000	1,800,000
December 31	1,003,224	\$10,032,238

As of December 31, 2018 and 2017, the Company's authorized capital were \$15,000,000 thousand, while the issued capital were \$10,403,431 thousand, and \$10,032,238 thousand respectively, representing 1,040,343 thousand Common shares and 1,003,224 thousand. Common shares with par value at \$10 per share.

The company's shareholders' meeting passed the resolution of the year 2017 capital surplus distribution on June 20, 2018, and the shareholder's dividend was transferred to the capital increase of \$200,645 thousand and the capital reserve \$170,548 thousand. The above-mentioned was approved by the FSC on August 13, 2018, issuing a total of 37,119 shares of common stock, with a denomination of \$10 per share, accounting for \$371,193 thousand and setting September 11, 2018 as the capital increase and ex-dividend and ex-dividend benchmark date.

2. Capital surplus

Items	December 31, 2018	December 31, 2017
Additional paid-in Capital	\$1,487,096	\$1,657,644
Donated assets	61	61
Total	\$1,487,157	\$1,657,705

The Company Act provides that capital surplus arising from issuance of new shares at a premium and donation may be used to offset accumulated loss.

Where a company incurs no loss, it may, distribute its capital surplus by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. The Securities and Exchange Act also prescribes that the total amount of capital surplus capitalized for issuance of new shares shall not exceed 10% of the total issued capital per year.

A company shall not use the capital surplus to recover its capital loss, unless the capital surplus is insufficient to recover such loss.

3. Retained Earnings and Dividends Policy

- (1) According to the earnings distribution policy of the Articles of Incorporation, the current year's earnings, if any, shall first to pay all taxes and offset prior year's operating loss, and 30% of the remaining amount should then be set aside as legal reserve. A provision for or reversal of the special reserve shall be determined in accordance with provisions under the applicable laws and regulations and according to actual business requirements. The Board must prepare a proposal for distribution of earnings for presentation to the shareholders' meeting for resolution of distribution of dividends for shareholders. For the employee and directors' compensation distribution policy as stipulated in the Articles of Association of the Company, please refer to Note 6.32 Employee Benefit Expense.

The board of directors may, depending on future business requirements and profitability, retain all or part of earnings. Distribution of dividends to shareholders may be determined according to current earnings and business development requirements with the board of directors proposing to the shareholders' meeting to make adjustments to the percentage of earnings to be distributed as cash dividends and stock dividends, to the extent that cash dividends shall be no less than 5% of stock dividends distributed in the current year.

(2) Legal reserve

A company shall set aside a legal reserve until its balance equals the amount of total issued capital. Legal reserve may be used to offset loss. Amendments to the Company Act announced on January 4, 2012 provide that the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or distributed by cash. On the other hand, the Banking Law provides that prior to the balance of legal reserve reaching total paid-in capital, the maximum amount distributed by cash shall not exceed 15% of total paid-in capital.



(3) Special reserves

Items	December 31, 2018	December 31, 2017
Reserve for employee transference and reassignment	\$5,230	\$3,103
Debit under other equity	—	43,934
Total	\$5,230	\$47,037

Provision and reversal of special reserve set aside in accordance with Gin-Guan-Zheng-Fa letter No. 1010012865, No.1010047490 and No.1030006415 of FSC and "Application of International Financial Reporting Standards (IFRSs) to raise doubts about the application of special surplus reserves".

According to the Gin-Guan-In-Fa letter No. 10510001510 on May 25, 2016, the public issuing bank shall provide a special surplus in the range of 0.5% to 1% of the net profit after tax in the distribution of the fiscal year 2016-2018. Since the fiscal year 2017, the same amount of employee turnover or resettlement expenses arising from the development of financial technology has been reversed from the scope of the special surplus reserve.

(4) Appropriation of earnings for 2017 and 2016 resolved by the shareholders' meeting in June 2018 and 2017, respectively and earnings per share:

Items	Earnings Appropriation		EPS (\$)	
	2017	2016	2017	2016
Recognized the legal reserve	\$127,581	\$186,211		
Recognized (Reverse) the special reserve	(41,807)	47,037		
Common shares cash dividend	130,419	387,244	0.13	0.386
Common shares stock dividend	200,645	—	0.20	—
Total	\$416,838	\$620,492		

The board of directors proposed to distribute capital surplus amounting to \$170,548 thousand in shares to shareholders (0.17 per share) in 2018.

The board of directors proposed to distribute capital surplus amounting to \$214,690 thousand in shares to shareholders (0.214 per share) in 2017.

(5) The appropriation of 2018 earnings had been proposed by the board of directors on March 21, 2019. Details were summarized below:

Items	Amount	Dividends Per Share
Legal reserve	\$120,795	
Special reserve	2,013	
Common shares cash dividend	114,438	0.110
Common shares stock dividend	161,253	0.155
Total	\$398,499	

In addition, the board of directors of the company proposed to issue shares to shareholders at a capital reserve of 244,481 thousand. (0.235 per share)

The retained earnings and capital surplus distribution of 2018 is subject to the resolution of the shareholders' meeting held in June 2019.

(6) Information on the earnings appropriation proposed by the Company's

Board of Directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

4. Other equity items

Items	Exchange differences on translation of financial statements of foreign operations	Unrealized gains/ losses from available-for-sale financial assets	Valuated gains(losses) of equity instruments at FVOCI	Valuated gains(losses) of debt instruments at FVOCI	Valuated gains(losses) of debt instruments at FVOCI	Allowance losses of debt instruments at FVOCI	Others	Total
Balance at January 1, 2018 (IAS 39)	(\$193)	\$55,076	\$	—	\$	—	\$73	\$54,956
Effect of retrospective application (IFRS 9)	—	(55,076)	—	142,070	149,470	2,063	—	238,527
Balance at January 1, 2018 (IFRS 9)	(\$193)	—	—	\$142,070	\$149,470	\$2,063	\$73	\$293,483
Foreign currency translation adjustments								
- Gain or loss on translating net assets of foreign operation	95	—	—	—	—	—	—	95
- Tax effects on gain or loss on translating net asset of foreign operation	(12)	—	—	—	—	—	—	(12)
Financial assets at FVTOCI								
- Unrealized gain (loss)	—	—	—	(45,834)	(68,458)	—	—	(114,292)
- Gains(losses) of disposal reclassified to gains(losses)	—	—	—	—	(127,446)	—	—	(127,446)
- Gains(losses) of disposal reclassified to retained earnings	—	—	—	(6,365)	—	—	—	(6,365)
- Allowance losses of debt instruments adjustment	—	—	—	—	—	3,656	—	3,656
Balance at December 31, 2018	(\$110)	—	—	\$89,871	(\$46,434)	\$5,719	\$73	\$49,119

Items	Exchange differences on translation of financial statements of foreign operations	Unrealized gains/ losses from available-for-sale financial assets	Others	Total
Balance, January 1, 2017	\$176	(\$44,331)	\$221	(\$43,934)
Foreign currency translation adjustments				
- Gain or loss on translating net assets of foreign operation	(445)	—	—	(445)
- Tax effects on gain or loss on translating net asset of foreign operation	76	—	—	76
Available-for-sale financial assets				
- Unrealized gain (loss) of available-for-sale financial assets	—	160,253	—	160,253
- Reclassification of profit or loss on disposal of available-for-sale financial assets	—	(69,090)	—	(69,090)
- Amortization	—	8,244	—	8,244
Others				
- Current changes	—	—	(148)	(148)
Balance at December 31, 2017	(\$193)	\$55,076	\$73	\$54,956



6.23 Net interest income

Items	For the year ended December 31	
	2018	2017
Interest income		
Interest from bills discounted and loans	\$3,904,958	\$3,585,945
Interest from deposits and call loans from other banks	39,199	33,038
Interest from securities investment	964,420	736,092
Credit card revolving interest income	1,305	1,205
Other interest income	51,645	32,407
Subtotal	\$4,961,527	\$4,388,687
Interest expense		
Interest expenses from deposits	\$1,855,994	\$1,544,090
Interest expenses from interbank overdraft and call loans	205,987	187,651
Interest expenses on financial bonds	100,903	78,897
Other interest expenses	167,010	43,540
Subtotal	\$2,329,894	\$1,854,178
Net interest income	\$2,631,633	\$2,534,509

Interest accrued on impaired financial assets for the year ended December 31, 2018 and 2017 was \$23,244 thousand and \$9,647 thousand, respectively.

6.24 Commission and fee revenues, net

Items	For the year ended December 31	
	2018	2017
Service fee revenue		
Service fee revenue - trust business	\$152,337	\$151,190
Service fee revenue - guarantees	39,036	36,245
Service fee revenue - foreign exchange	21,997	21,153
Service fee revenue - loans	101,379	94,791
Credit card service fee revenue	9,094	9,354
Agency fee revenue	203,720	176,875
Deposit and remittance service fee revenue and other service fee revenue	27,215	22,096
Subtotal	\$554,778	\$511,704
Service fee expense		
Service fee expense - foreign exchange	\$9,576	\$8,564
Deposit and remittance service fee expense and other service fee expenses	41,532	45,414
Subtotal	\$51,108	\$53,978
Net service fee revenue	\$503,670	\$457,726

The Company provide custodian, trust, investment management and consulting services to third parties, which involve the planning, management and decision-making in determining the use of financial instruments. Assets managed under a trust fund or in an investment portfolio are separately presented in separate accounts and financial statements and are not included in the Company's financial statements.

6.25 Gains (losses) on financial assets and liabilities at fair value through profit or loss

Items	For the year ended December 31	
	2018	2017
Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss		
Interest income	\$5,228	\$10,823
Stock dividends	418	560
Gain (loss) on disposal – non-derivative instruments	2,789	18,226
Gain (loss) on disposal – derivative instruments	404,246	40,622
Subtotal	\$412,681	\$70,231
Valuation gains and losses on financial assets and liabilities at fair value through profit or loss		
Non-derivative instruments	(\$9,564)	\$7,347
Derivative instruments	(210,433)	41,024
Subtotal	(\$219,997)	\$48,371
Total	\$192,684	\$118,602

6.26 Realized gains (losses) on available-for-sale financial assets - 2017

Items	For the year ended Dec. 31, 2017
Stock dividend	\$409
Gain on disposal	
Bond	\$31,210
Equity funds	49,462
Subtotal	\$80,672
Loss on disposal	
Bond	\$9,332
Equity funds	2,250
Subtotal	\$11,582
Total	\$69,499

6.27 Realized gains (losses) on financial assets at fair value through other comprehensive income - 2018

Items	For the year ended Dec. 31, 2018
Dividend of preferred stocks	\$86,238
Gains of disposing bonds	136,075
Losses of disposing bonds	(8,629)
Total	\$213,684

6.28 Foreign exchange gains (losses)

Items	For the year ended December 31	
	2018	2017
Foreign exchange gains (losses) - sight	\$46,248	\$34,218
Foreign exchange gains (losses) - FX conversion, forwards	(101,990)	(20,090)
Total	(\$55,742)	\$14,128



6.29 Gains on reversal of asset impairment loss

Items	For the year ended December 31	
	2018	2017
Investments in debt instruments at FVTOCI	(\$3,664)	\$—
Financial assets at amortized cost	(1,654)	—
Total	(\$5,318)	\$—

6.30 Net gains (losses) on financial assets carried at cost - 2017

Items	For the year ended Dec. 31, 2017
Dividends	\$52,616
Remuneration to directors	1,100
Total	\$53,716

6.31 Other miscellaneous income (loss)

Items	For the year ended December 31	
	2018	2017
Rental revenues	\$9,928	\$9,962
Overdue payables	1,257	4,689
Others	7,824	22,281
Total	\$19,009	\$36,932

6.32 Employee benefit expense

Items	For the year ended December 31	
	2018	2017
Wages and salaries	\$1,221,967	\$1,160,984
Labor and health insurance fees	96,506	96,712
Pensions costs	148,251	146,917
Remuneration to directors	15,343	16,189
Other employee benefits	13,887	13,535
Total	\$1,495,954	\$1,434,337

(1) Salary adjustment situation of 2018:

A. In order to implement the care of employees, the company still takes care of its colleagues in facing a strict operating environment. Since April 1, 2018, it has applied for a structural increase of 1% salary to encourage morale.

B. According to the employee's year-end assessment of 2017, the promotion will be upgraded by about 2.57%.

(2) The Company appropriated the EBIT before the deduction of remuneration to employees and directors at 5% and no more than 1.25 % as remuneration to employees and directors, respectively.

If there is a change in this amount after the announcement of the financial report, the difference will be treated as change in accounting estimate and adjusted in the next period.

(3) Remuneration of employees and directors for 2018 and 2017 resolved by the Directors' meeting in March 21, 2019 and March 22, 2018, respectively were as follows:

Items	2018		2017	
	Remuneration to employees	Remuneration to Directors	Remuneration to employees	Remuneration to directors
Resolved amount for distribution	\$21,844	5,461	24,778	6,195
Recognized amount in annual report	20,940	5,235	25,071	6,268
Difference	\$904	\$226	(\$293)	(\$73)

A. The differences between the estimates determined by the Board and the amounts presented in the financial statements for 2018 and 2017 are mainly from estimation and have been recognized as income or loss in 2019 and 2018.

B. The aforementioned remuneration to employees will be released in cash.

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

6.33 Depreciation and amortization expense

Items	For the year ended December 31	
	2018	2017
Depreciation expense- property and equipment	\$70,604	\$67,319
Amortisation expense- intangible assets and other assets	34,868	30,842
Total	\$105,472	\$98,161

6.34 Other general and administrative expense

Items	For the year ended December 31	
	2018	2017
Taxes and dues	\$210,069	\$207,481
Rental expense	134,433	127,971
Insurance expenses	74,149	72,478
Professional service fees	73,151	71,127
Repair expense	36,200	28,037
Utility expense	17,753	19,977
Consumables	23,576	21,524
Public relation expense	17,113	16,275
Postage & handling	14,078	13,888
Other	91,563	92,110
Total	\$692,085	\$670,868



6.35 Income Tax

(1) Components of income tax expense:

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

Item	For the year ended December 31	
	2018	2017
Current income tax		
Current tax expense	26,582	\$62,304
10% Surtax on undistributed retained earnings	820	21
Adjustments for prior years' tax adjustments	(152)	22
Subtotal	\$27,250	\$62,347
Deferred tax expense		
Origination and reversal of temporary differences	\$13,931	(\$16,027)
Effect of tax rate changes	(32,652)	—
Subtotal	(\$18,721)	(\$16,027)
Income tax expense (benefit)	\$8,529	\$46,320

The Company's income tax rate was adjusted from 17% to 20% starting from 2018.

In addition, the tax rate applicable to unappropriated earnings was reduced from 10% to 5%.

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

Item	For the year ended December 31	
	2018	2017
Difference from conversion of financial statement of foreign operations		
Tax rate changes	\$7	\$—
Current period	(19)	76
Reassessment of defined benefit plan		
Tax rate changes	5,292	—
Current period	6,467	5,608
Subtotal	\$11,747	\$5,684

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

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

Item	For the year ended December 31	
	2018	2017
Pre-tax income	\$488,132	\$498,736
Income tax from pre-tax income calculated at a statutory rate	\$97,626	\$84,785
Adjustments:		
Effects of income tax exemption	(131,416)	(90,439)
Effects of other tax adjustments		
Excessive provision for bad debt expense	(71,628)	75,287
Unrealized (realized) pension expenses	(13,555)	(15,301)
Gain(Loss) on valuation	43,999	(8,194)
Unfulfilled financing commitments and letter of credit preparation	4,514	—
Others	(923)	(315)
Loss in current period for deduction of income tax in subsequent periods	71,953	(38,461)
Differences in general tax amounts and basic tax amounts	26,012	54,942
10% Surtax on undistributed retained earnings	820	21
Income tax adjustment for prior period	(152)	22
Net changes in deferred tax assets	(18,721)	(16,027)
Income tax expense (benefit)	\$8,529	\$46,320

(3) Unrecognized deferred income tax assets

As of December 31, 2018 and 2017, the balance of unrecognized deferred income tax assets was nil as of the respective balance sheets dates.

(4) The corporate income tax of the Company has been approved by the taxation authorities until 2016.

(5) Deferred tax assets (liabilities) changes

2018:

Items	Balance at beginning	Recognized on gains(losses) (note 1)	Recognized on OCI (note2)	Balance at end
Net defined benefit liability	\$49,694	(\$10,077)	\$11,759	\$51,376
Overrun of allowance for bad debts	128,617	(76,730)	—	51,887
Deferred guarantee liability	4,876	2,456	—	7,332
Preparation of financing commitments	—	4,217	—	4,217
Reserve for others liabilities	—	8,110	—	8,110
Unused loss carryforwards	37,113	62,407	—	99,520
Other	(5,282)	41,731	(12)	36,437
Total	\$215,018	\$32,114	\$11,747	\$258,879

(Note 1): Including the retroactive application of IFRS 9, with the impacts of 13,393 thousand, the impact of tax rate changes of 32,652 thousand, and the current period decrease of (13,931) thousand.

(Note 2): Including the impact of tax rate changes of 5,299 thousand and an increase of 6,448 thousand in the current period.

2017:

Items	Balance at beginning	Recognized on gains(losses)	Recognized on OCI	Balance at end
Net defined benefit liability	\$59,387	(\$15,301)	\$5,608	\$49,694
Overrun of allowance for bad debts	51,523	77,094	—	128,617
Deferred guarantee liability	5,312	(436)	—	4,876
Unused loss carryforwards	75,574	(38,461)	—	37,113
Other	1,511	(6,869)	76	(5,282)
Total	\$193,307	\$16,027	\$5,684	\$215,018

6.36 Other comprehensive income, net of tax

Item	For the year ended December 31, 2018		
	From current period	Income tax benefit (expense)	Earnings
Items that will not be reclassified subsequently to profit or loss			
Unrealized gains on investments in equity instruments at FVOCI	(\$45,834)	\$—	(\$45,834)
Reassessment of defined benefit plan	(\$32,336)	\$11,759	(\$20,577)
Items could be reclassified as income in the future:			
Difference from conversion of financial statement of foreign operations	95	(12)	83
Gain on debt instruments at FVTOCI	(195,904)	—	(195,904)
(Impairment losses) and reversal gains on debt instruments at FVOCI	3,656	—	3,656
Recognized in other comprehensive income	(\$270,323)	\$11,747	(\$258,576)



Item	For the year ended December 31, 2017		
	From current period	Income tax benefit (expense)	Earnings
Items that will not be reclassified subsequently to profit or loss			
Reassessment of defined benefit plan	(\$32,988)	\$5,608	(\$27,380)
Items could be reclassified as income in the future:			
Difference from conversion of financial statement of foreign operations	(445)	76	(369)
Unrealized reappraisal loss of financial assets available -for-sale	99,407	—	99,407
Recognized in other comprehensive income	\$65,974	\$5,684	\$71,658

6.37 Basic earnings per share

Item	For the year ended December 31	
	2018	2017
Earnings in the current period(A)	\$479,603	\$452,416
Weighted-average of outstanding shares in the current period (1,000 shares)	1,040,343	963,772
Adjusted weighted-average shares (1,000 shares) (B)	1,040,343	999,432
Basic EPS (A)/(B) (NTD)	\$0.46	\$0.45

7. RELATED PARTY TRANSACTIONS

7.1 Name and Relationship of Related Parties with the Company

Name of Related Party	Relationship with the Company
Kaohsiung City Government	A major shareholder of the Company
Kaohsiung Rapid Transit Corporation	Related party in substance
Others	Directors, supervisors and managerial officers and their relatives and related parties in substance

7.2 Significant transactions with related parties

(1) Credit

Name of Related Party	December 31, 2018	December 31, 2017
Kaohsiung City Government	\$22,464,937	\$23,249,691
Others	103,057	90,897

Name of Related Party	For the year ended December 31, 2018	
	Interest & service fee income	Interest Rate Range
Kaohsiung City Government	\$127,393	0.525%-2.095%
Others	1,593	1.245%-2.610%

Name of Related Party	For the year ended December 31, 2017	
	Interest & service fee income	Interest Rate Range
Kaohsiung City Government	\$129,191	0.445%-2.095%
Others	1,467	1.245%-2.650%

For the year ended December 31, 2018 and 2017, interest rates charged for credit extended to related parties are shown above by the type and purpose of loan and the interest rate range for credit extended to non-related parties (other than those under debt negotiation) was 0.562%-8.00% and 0.533%-10.00%, respectively.

(2) Deposit

Name of Related Party	December 31, 2018	December 31, 2017
Kaohsiung City Government	\$11,511,365	\$11,910,382
Kaohsiung Rapid Transit Corporation	337,278	328,645
Others	550,997	538,274

Name of Related Party	For the year ended December 31, 2018	
	Interest expense	Interest Rate Range
Kaohsiung City Government	\$25,929	0.05%-1.45%
Kaohsiung Rapid Transit Corporation	2,319	0.05%-1.06%
Others	7,567	0%-13%

Name of Related Party	For the year ended December 31, 2017	
	Interest expense	Interest Rate Range
Kaohsiung City Government	\$25,121	0%-1.45%
Kaohsiung Rapid Transit Corporation	2,154	0.05%-1.06%
Others	7,016	0%-13%

- a. The interest rate range for the above related-party deposit accounts is shown up by the nature of the deposit. The interest rate range for non-related party deposits was 0%-13%.
- b. The highest deposit rate offered to employees of the Company (not related parties) was 13%. Deposit rate offered to other related parties may vary depending on the nature of the deposits with the highest rate offered equivalent to that offered to bank employees.

(3) Lease

- a. The Company leases the following from the Kaohsiung City Government:

2018:

Leased Property	Lease Term	Payment Method	Rental Expense
Dormitory of Hsiao Kang Branch	2016.1. 1-2018.12.31	Half-yearly payment	\$204
Dormitory of Wan Nei Branch	2016.1. 1-2018.12.31	Half-yearly payment	1,039
Dormitory of Shih Fu Branch	2016.1. 1-2018.12.31	Half-yearly payment	270
Dormitory of Tso Ying Branch	2018.1. 1-2022.12.31	Half-yearly payment	627
Dormitory of Kwei Lin Branch	2017.1. 1-2019.12.31	Half-yearly payment	519
Dormitory of Gangshan Benjhou Branch	2017.9. 1-2022. 8.31	Half-yearly payment	405
		Total	\$3,064

2017:

Leased Property	Lease Term	Payment Method	Rental Expense
Dormitory of Hsiao Kang Branch	2016.1. 1-2018.12.31	Half-yearly payment	\$206
Dormitory of Yen Cheng Mini Branch	2017.1. 1-2017. 6.30	Half-yearly payment	370
Dormitory of Wan Nei Branch	2016.1. 1-2018.12.31	Half-yearly payment	1,049
Dormitory of Shih Fu Branch	2016.1. 1-2018.12.31	Half-yearly payment	231
Dormitory of Tso Ying Branch	2015.1. 1-2017.12.31	Half-yearly payment	607
Dormitory of Kwei Lin Branch	2017.1. 1-2019.12.31	Half-yearly payment	506
Dormitory of Gangshan Benjhou Branch	2017.9. 1-2022. 8.31	Half-yearly payment	405
Total			\$3,374

Type of lease: operating lease.

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

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

A. Loans

December 31, 2018:

Unit: NT\$ Thousand

Type	Number of accounts or name of related	Highest Balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	8	13,784	12,146	12,146	—	real estate, credit	No
Residential mortgage	12	83,746	67,301	67,301	—	real estate	No
Other loans	Chou ○○	1,716	1,610	1,610	—	real estate	No
Other loans	Dai ○○	3,000	3,000	3,000	—	real estate	No
Other loans	Chen ○○	10,000	10,000	10,000	—	real estate	No
Other loans	Hsu ○○	9,000	9,000	9,000	—	real estate	No
Other loans	Sung ○○	3,000	—	—	—	real estate	No

December 31, 2017:

Unit: NT\$ Thousand

Type	Number of accounts or name of related party	Highest Balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	8	14,648	13,599	13,599	—	real estate, credit	No
Residential mortgage	12	77,854	69,462	69,462	—	real estate	No
Other loans	Chou ○○	1,923	1,716	1,716	—	real estate	No
Other loans	Hsu ○○	120	120	120	—	NCD	No
Other loans	Dai ○○	3,000	3,000	3,000	—	real estate	No
Other loans	Ko ○○	3,500	—	—	—	real estate	No
Other loans	Sung ○○	4,500	3,000	3,000	—	real estate	No

Explanation 1: The balances of employee consumer loans and residential mortgages may be disclosed in one lump sum. The balance of loans to other related parties shall be disclosed separately according to the name of each related party.

Explanation 2: Collaterals include real estate, short-term bills, government bonds, secured corporate bonds, unsecured corporate bonds, exchange, or OTC-listed stocks, unlisted stocks and other properties.

And provide details for other properties.

Explanation 3: As of December 31, 2018 and 2017, allowance for doubtful accounts provided for loans to related parties amounted to \$74 thousand and \$59 thousand, respectively. For the years ended December 31, 2018 and 2017, impairment loss (reversal of impairment) in relation to loans to related parties amounted to \$15 thousand and \$13 thousand, respectively.

(2) Guarantee: None

(3) Derivatives: None.

(4) Disposal of non-performing loans: None..

5. Remuneration to key managerial officers

Items	For the year ended December 31	
	2018	2017
Salaries and other short-term employee benefits	\$38,874	\$38,471
Post-employment benefits	2,042	1,957
Other long-term employee benefits	—	—
Termination benefits	—	—
Share-based payment	—	—
Total	\$40,916	\$40,428

8. PLEDGED ASSETS

Items	December 31, 2018	December 31, 2017
Financial instruments at fair value through profit or loss		
Government bond (par value)	\$60,000	\$60,000
Financial assets at fair value through other comprehensive income		
Government bond (par value)	734,500	—
Foreign bond (par value)	2,711,046	—
Investments in debt instruments at amortized cost		
Negotiable certificate of deposit	4,400,000	—
Government bond (par value)	3,881,100	—
Foreign bond (par value)	8,766,335	—
Financial assets available for sales		
Foreign bond (par value)	—	6,000,000
Government bond (par value)	—	1,060,200
Foreign bond (par value)	—	5,523,344
Other assets		
Margin for R/P bonds	—	37,159
Total	\$20,552,981	\$12,680,703

The above pledged assets were placed with the court as the guarantee deposit for executing provisional seizure on borrowers' assets or used as the guarantee deposit for credit card payment, gross settlement as compensation reserve (Trust Department), as the collateral of securities issuer and for real-time mechanism implemented by the Central Bank for the Interbank Funds Bank Transfer System. The Company provides negotiable certificates of deposit as the day guarantee for overdrafts and as such, the guarantee amount may be changed at any time and unused credit may still be used as liquid reserve.

9. SIGNIFICANT OR CONTINGENT LIABILITIES AND COMMITMENTS

As of December 31, 2018 and 2017, the Company had the following commitments:

Items	December 31, 2018	December 31, 2017
Securities sold with to repurchase agreement	\$10,498,949	\$5,391,971
Securities purchased with to resell agreement	5,244,697	9,227,219
Loan yet to be appropriated by the borrower (Note)	53,455,146	56,407,458
Credit line facility yet to be utilized by the credit card holder	8,460	7,015
Irrevocable credit card credit commitment	1,094,342	—
Standby letter of credit yet to be utilized by the client	1,398,102	1,341,757
Guarantees	3,491,115	2,903,025
Amounts collected on behalf of customers	9,985,895	10,485,411
Agency loans payable	3,065,176	3,506,992
Agency sale of traveller's checks	36,406	32,080
Trust assets	23,969,715	20,938,128
Marketable securities held under custody	30,471,784	30,625,697

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

10. SIGNIFICANT DISASTER LOSS: NONE.
11. SIGNIFICANT SUBSEQUENT EVENT: NONE.
12. OTHERS

12.1 Details and amounts of trust businesses conducted in accordance with regulations governing trust enterprises

Balance sheets of Trust Account

Trust Assets	December 31, 2018	December 31, 2017
Bank deposit	\$462,700	\$497,151
Financial Assets		
Stock	16,091	17,120
Investment in funds	19,178,889	17,840,330
Real Estate	4,312,035	2,583,527
Total	\$23,969,715	\$20,938,128

Balance sheets of Trust Account

Trust Liabilities	December 31, 2018	December 31, 2017
Medium and long - term loans	\$1,313,342	\$572,138
Trust capital	22,647,907	20,364,355
Retained earnings	8,466	1,635
Total	\$23,969,715	\$20,938,128

Property list of Trust Account

Property Items	December 31, 2018	December 31, 2017
Bank deposit	\$462,700	\$497,151
Stocks	16,091	17,120
Investment in funds	19,178,889	17,840,330
Real estate	4,312,035	2,583,527
Total	\$23,969,715	\$20,938,128

Income Statement of Trust Account

	For the year ended December 31	
Property Items	2018	2017
Trust Revenue		
Interest income	\$4,042	\$4,968
Investment income	602	920
Total trust revenue	\$4,644	\$5,888
Trust Expense		
Administrative expense	\$2,139	\$4,336
Taxes	316	354
Other expenses	28	26
Total trust expense	\$2,483	\$4,716
Net income (loss) before income tax	\$2,161	\$1,172
Income tax	—	—
Net income (loss)	\$2,161	\$1,172

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

12.2 Where the Company is a subsidiary of a financial holding company, apportionment of revenue, cost, expenses and profit or loss arising from business and transaction activities, joint business promotion activities, sharing of information or sharing of business facility or premise between the Company and the financial holding company and other subsidiaries: the Company is not a subsidiary of a financial holding company.

12.3 Financial instruments

1. Information on fair value — Not at fair value

(1) Except for the following significant differences between the carrying amount and the fair value, the carrying amount of financial instruments that are not measured at fair value is an approximation of fair value.

	December 31, 2018	
Items	Book value	Fair value
<u>Financial assets</u>		
Financial assets at amortized cost	41,341,955	41,314,634

December 31, 2017: None.

(2) Information on fair value

	December 31, 2018			
Items	AMOUNT	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Financial asset at amortized cost	41,314,634	9,859,999	31,454,635	—

December 31, 2017: None.

2. Information on fair value - financial assets at measurement of repetitive fair value

(1) Information on the classes of fair value

	December 31, 2018			
Items	Total	Quotation of the same asset in active market (Class I)	Other major observable input value (Class II)	Major unobservable input value (Class III)
<u>Measurement of repetitive fair value</u>				
Non-derivative assets and liabilities				
Asset				
Financial assets at fair value through profit and loss				
Fund investment	\$37,220	\$37,220	\$ —	\$ —
Bond investment	313,401	65,640	247,761	—
Total	\$350,621	\$102,860	\$247,761	\$ —
Financial assets at fair value through other comprehensive income				
Equity investment	\$1,429,429	\$255,618	\$ —	\$1,173,811
Bond investment	16,936,914	4,234,170	12,702,744	—
Total	\$18,366,343	\$4,489,788	\$12,702,744	\$1,173,811
<u>Derivative financial assets and liabilities</u>				
Asset				
Financial assets at fair value through profit and loss	33,769	—	33,769	—
Liabilities				
Financial liabilities at fair value through profit and loss	199,806	—	199,806	—



Items	December 31, 2017			
	Total	Quotation of the same asset in active market (Class I)	Other major observable input value (Class II)	Major unobservable input value (Class III)
<u>Measurement of repetitive fair value</u>				
Non-derivative assets and liabilities				
Asset				
Financial assets at fair value through profit and loss				
Stock investment	\$13,606	\$13,606	\$—	\$—
Fund investment	39,673	39,673	—	—
Bond investment	259,696	68,065	191,631	—
Bill investment	918,690	—	918,690	—
Total	\$1,231,665	\$121,344	\$1,110,321	\$—
Available-for-sale financial assets				
Equity investment	\$171,533	\$171,533	\$—	\$—
Bond investment	28,639,554	14,545,620	14,093,934	—
Other	25,030,195	—	25,030,195	—
Total	\$53,841,282	\$14,717,153	\$39,124,129	\$—
<u>Derivative financial assets and liabilities</u>				
Asset				
Financial assets at fair value through profit and loss	45,384	—	45,384	—
Liabilities				
Financial liabilities at fair value through profit and loss	989	—	989	—

B. Definition of the three classes of fair value

Class I

The input value of this category of financial instruments in active market shall be the open quotation of financial instruments of the same kind in active market. Active market as referred to are market featuring the following conditions: the subject matters of trade are homogenous; the buyers and the sellers can buy and sell at free will with information available to the public.

The Company invested in the stocks and beneficiary certificates listed in TWSE and GTSM are hot items for investment in the bonds of the Central Government of Taiwan and derivatives with open quotation in open market at fair value. They all are Class I assets.

Class II

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

Class III

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

C. Evaluation techniques and input values used to measure fair value

(A) Decision of fair value

If there is open quotation in the open market for the financial instruments, the open quotation in the open market shall be the fair value. The market price announced by major exchanges and determined as Bloomberg or Reuter are the foundation for fair value of quotation of equity instruments listed in TWSE (GTSM) and debt instruments that have active market. If the open quotations from the exchanges, brokers, underwriters or pricing service institutions can be accessible timely and regularly, and such quotations can stand for the routine fair trade in market, such financial instruments have open quotation in the active market. If the aforementioned conditions cannot be satisfied, the market is not active.

In general, a market with wide spread buying and selling, significant variation in the buying or selling price or where trade volume is low will be an inactive market.

Further to the aforementioned financial instruments that have an active market, the fair value of all other financial instruments shall be obtained from pricing techniques or quotations from counterparties. For fair value obtained from pricing techniques, the fair value of financial instruments in similar nature and features at present time, the cash flow discount method or other pricing techniques, including the model for the calculation on the basis of the information from the market as of the balance sheet date (such as the yield rate curve of GTSM and the Fixing Rate of page TAIBIR 02 by Taiwan Depository & Clearing Corporation).

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

For the more complex financial instruments, the fair value is measured by the evaluation model developed by the peers in the widely used evaluation methods and technologies. Such evaluation models are typically used for derivatives, debt instruments that are not publicly quoted (including debt instruments embedded in derivatives), or other debt instruments with low liquidity in the market. Some of the parameters used in such evaluation models are not market observable information, and the Company must make appropriate estimates based on assumptions.

(B) The evaluation methods of financial instruments are listed by category and attribute as follows:

- A. NTD Central Government bonds: The hundred dollars price is calculated based on the interest rate of the public debt market and theoretical interest rate announced by the counter trading center.
- B. NTD corporate bonds and financial bonds: The Company calculates the appropriate yield and then converts the hundred dollars price based on the corporate bond evaluation reference interest rate announced by the counter trading center, in conjunction with the appropriate credit rating and the remaining period.
- C. NTD Convertible Corporate Bonds: The convertible (transfer) exchange of corporate bonds listed on the counter trading center is based on the closing price of the evaluation date. Those who do not have the closing price will be referred to the reference price of the company's debt trading (distribution) for the company's bond trading.
- D. Asset securitization goods: Use Bloomberg price information.
- E. NTD short-term ticket: The future cash flow will be discounted in the appropriate period using the Fixing Rate on the TAIBIR page 02 of the Taiwan Central Depository and Clearing House.
- F. Foreign currency securities: The latest quotes available on the evaluation date by the instant information system (Bloomberg, British Thomson Reuters or other platforms). If there is no relevant quote or evaluator above, the counterparty quote is used.
- G. Listed counter stocks, subscription (sales) warrants, depositary receipts: the closing price announced by the exchange or counter trading center.
- H. Unlisted cabinet company stocks: The fair value measurement is mainly based on the relevant financial information or the market price and parameters of the comparable listed company with similar business attributes.



I. Beneficiary certificate: the fair value of close-end funds is closing price of open market and the fair value of open-end funds is net asset value of fund.

J. Derivative:

- a. Call/ Put warrants and stock index futures: the fair value is open quotes for the active market.
- b. Forwards contracts, currency swap, interest rate swap, cross currency swaps and margin trading: Discounted future cash flow.
- c. Options: Mainly evaluated by Black-Scholes, binomial tree Methodology and Monte Carlo model.
- d. Part of derivatives use counterparty quotes.

K. Mixing tool : Calculated by open market quotes, trading broker quotes or evaluation models.

(C) Adjustment of credit risk evaluation :

The adjustment of the risk assessment of derivative contracts in OTC trade could be classified as Credit Value Adjustments (CVA) and Debit Value Adjustments (DVA) so as to reflect the possible overdue amounts of the counterparties or the Company, and the possibility of collection or payment of the Company in whole at market value.

In consideration of the probability of default (PD) of the counterparties, multiplied by the loss given default (LGD), and further multiplied by exposure at default (EAD) to get the CVA. To the contrast, the Company will multiply the PD and the LGD and also the EAD of the Company to find out the DVA.

Most counterparties of the Company adopted 60% as the assumed LGD.

However, other assumptions of the LGD may be taken with consideration to the nature of the risks involved and the data available.

D. Transfer between Class I and Class II assets

In the years ended December 31, 2018 and 2017, the Company did not have any transfer between class I assets and liabilities and Class II assets and liabilities.

E. Changes in Class III:

Items	No public offer investments in equity instruments
January 1, 2018	\$—
Impact of retrospective application of IFRS 9	1,225,878
recognized in other comprehensive income	(52,067)
December 31, 2018	\$1,173,811

F. Measurement process for fair value classified as Class III:

The unlisted (cabinet) company stocks held by the Company in an inactive market are mainly based on the market method to estimate the fair value.

The judgment is based on the same type of company evaluation, third party quotation, company net value and operating status assessment. In addition, its significant unobservable inputs are mainly liquidity discounts, but it is not intended to disclose quantitative information because the possible changes in liquidity discounts do not lead to significant potential financial impacts.

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

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

12.4 Financial risk management

(1) Overview

The primary objectives of the Company's risk management approach are to service customers whilst ensuring that the related business targets are met, maintaining the overall risk appetite and ensuring compliance with external regulatory requirements. Ultimately, the Company aims to achieve effective risk diversification,

transfer and hedging whilst creating a three-way win situation for customers, shareholders and employees. Major risks confronting the Company include on- and off-balance-sheet credit risks, market risks (including interest rate, exchange rate, beneficiary securities and product risks) and liquidity risks.

The Company has set written risk management policies or risk control procedures, which were reviewed and adopted by the Board of Directors in order to effectively identify, measure, monitor and control credit, market and liquidity risks.

(2) Risk management structure

The Risk Management Department of the Company manages risks in accordance with the risk management policies approved by the Board of Directors. The Risk Management Department works closely with business departments to identify, evaluate and hedge against the various financial risks.

The Board of Directors sets written risk management policies, which cover specific risk exposures such as exchange rate risk, interest rate risk, credit risk, and risks arising from derivative and non-derivative transactions. On the other hand, internal audit is jointly responsible for conducting independent audits on risk management practices and the control environment.

(3) Credit risk

A. The sources and definition of credit risk

The Company is exposed to credit risk due to default on contracts by a client or a counterparty, which results in financial losses suffered by the Company.

The sources of credit risks includes on- and off-balance-sheet assets and liabilities. A significant portion of credit risks originates from discounts and loans, credit card business, due from other banks, acceptances, investments in debt instruments and derivatives. The major off-balance-sheet items which expose the Company to credit risk are financial guarantees, letters of credit and loan guarantees.

B. Credit risk management policies

In order to ensure that credit risk is controlled with an acceptable level, the Company's credit risk management guidelines provide that the scope of credit risk management shall cover the management of credit risk arising from on- and off-balance-sheet asset and liability items. One of the credit risk management objectives is to maintain adequate capital to cover credit risk to better manage credit risk faced by the Company. It is critical to ensure internal control procedures are appropriately carried out to ensure that credit approval and investments are appropriately managed, which in turn will ensure that the various credit exposures comply with the statutory requirements.

Credit risk management procedures and measurement of credit risk for the Company's primary business activities are explained as follows:

(A) Credit business (including loan commitments and guarantees)

Explanations are provided as follows by the categories of credit assets and credit rating:

a. Types of credit assets

The Company classified credit assets into five categories. With the exception of normal credit assets which are classified as "Category One" assets, the remaining unsound credit that required special attention was evaluated based on the status of the creditor's right, loan collaterals and the length of time overdue, and classified as "Category Two- Special Mention", "Category Three- Substandard", "Category Four- Doubtful" and "Category Five- Loss". The Company has set the "Operational Guidelines for Evaluation of Credit Assets" and adopted the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as the basis for managing problem loans and collection of overdue credit.

b. Credit rating

The Company has formulated a credit rating scale and related rules based on business attributes and the size of operation to manage risks.



Corporate borrowers are grouped into eight categories according to their respective credit rating, while individual borrowers are grouped in terms of credit quality as follows according to the types of products and the borrower's credit rating (a) Home loan borrowers: four categories “excellent” , “good” , “fair” and “special approval” ; (b) Others: seven categories of repayment capabilities- excellent, very strong, strong, satisfactory, weak, very weak and unrated.

(B) Due from banks and call loan to banks

The Company assesses the credit rating of the counterparty and refer to rating information provided by external rating agencies in Taiwan and overseas prior to undertaking a transaction. Each counterparty is assigned a rating and different levels of credit risk exposures.

(C) Investment in debt instruments and derivatives

The Company manages credit risk arising from debt instruments by assessing the credit rating of debt instruments provided by external rating agencies, the credit quality of bonds, status of a region and counterparty credit risks in order to identify credit risk associated with these types of instruments.

The Company undertakes derivative transactions with counterparties that are financial institutions. The majority of these financial institutions have investment-grade rating or above. The Company manages credit risk by controlling a counterparty's credit limit (including credit limit for call loans); any counterparty that is unrated or does not have an investment-grade rating must be assessed individually. If the counterparty is an individual customer, the risk exposure limit and terms applicable to such derivative instruments approved in accordance with general credit approval procedures are managed to control counterparty credit risk.

The Company rates the credit quality of debt instruments and derivatives as follows:

a. TWD debt instruments (without taking into account valuation adjustment and accumulated impairment loss)

Credit Rating
twAAA, government bond and NCD issued by the Central Bank
twAA+ ~ twAA-
twA+ ~ twA-
twBBB+ ~ twBBB-
Below and unrated

b. Foreign-currency debt instruments (without taking into account valuation adjustment and accumulated impairment loss)

Credit Rating
Aaa
Aa1 ~ Aa3
A1 ~ A3
Baa1 ~ Baa3
Below and unrated

D. Judgment that credit risk has increased significantly since the original recognition

The Company assesses the change in the risk of default in the expected duration of each financial asset on each reporting date to determine whether the credit risk has increased significantly since the original recognition.

For this assessment, the Company's considerations show that the credit risk has increased significantly and can be corroborated (including forward-looking information) since the original recognition.

The main considerations include:

(A) Information on overdue status and changes in internal credit rating

- (a) When the credit contract amount is overdue for 31 to 90 days and there are no other adverse signs, it is determined that the credit risk of the financial assets has increased significantly since the original recognition, but the overdue period is more than 30 days, and the credit risk is significantly increased to refute the information.

For example :

- a. When the unpaid payment is administratively lost, it is not due to the financial difficulties of the borrower.
- b. Payment due to business disputes between companies is overdue.
- c. Credit card payables overdue for 30 days are caused by force majeure factors, such as card holders leaving the country or hospitalized.
- d. The Company's various types of credit assets are not applicable.

The judgment of low credit risk can be regarded as the assumption that the credit risk has not increased significantly since the original recognition.

(B) Actual operating conditions and debt performance

- (a) The current or projected adverse changes in the operating, financial or economic conditions that are expected to result in significant changes in the borrower's ability to perform its debt obligations.
- (b) The actual or expected significant change in the operating results of the borrower has significantly increased the credit risk of other financial instruments of the same borrower.

(C) Other objective facts sufficient to establish a significant increase in credit risk.

For low credit risk and Stage1, the principle includes the normal repayment of credits of the creditor, the overdue period of less than 30 days (the secured creditor of the debt negotiation success); the financial assets of the investment grade, or the non-investment grade but the rating is not significantly reduced. In addition, considering the attributes of the counterparty and the financial instrument itself, there is no historical impairment experience in the past and the probability of future impairment is estimated to be extremely low (eg, deposit and withdrawal), which is also considered a low risk location.

E. Definition of default and credit impairment financial assets

When one or more events that have an adverse effect on the estimated future cash flows of a financial asset have occurred, the financial asset is credit-derogated. Evidence of credit impairment on financial assets includes observable information on:

(A) Quantitative indicators

The borrower overdues the contract payment for more than 90 days.

(B) Qualitative indicators

If there is evidence that the borrower will not be able to pay the contract, or that the borrower has significant financial difficulties, such as:

- (a) The borrower has gone bankrupt or may claim bankruptcy or financial restructuring.
 - (b) The borrower has gone or been dissolved.
 - (c) The borrower's other financial instrument contract has defaulted.
 - (d) The active market of the financial asset disappeared due to financial difficulties.
 - (e) Due to economic or contractual reasons relating to the financial difficulties of the borrower, the creditor of the borrower gives concessions to the borrower that would otherwise not be considered.
 - (f) Purchase or creation of financial assets at a substantial discount to reflect the occurrence of credit losses
- The aforementioned default and credit impairment definitions apply to all financial assets held by the Company and are used for financial assets for internal credit risk management purposes. The definition is consistent and applied to the relevant impairment assessment model.



F. Reversal policy

The Company reverses the whole or part of the financial assets when it is unable to reasonably expect the whole or part of the recovered financial assets, and the indicators that cannot be reasonably expected to be recycled include:

- (a) The recourse has ceased.
- (b) The borrower has been assessed to have insufficient assets or sources of income to pay the outstanding amount.

The financial assets that have been written off by the Company may still have ongoing recourse activities and continue to follow the relevant policies.

G. Measurement of expected credit losses

The Company's financial instruments that have not significantly increased the credit risk since the original recognition are based on the 12-month expected credit loss amount to measure the allowance loss of the financial instrument; the credit risk has increased significantly or credit impairment since the original recognition financial instruments and operating lease receivables are measured as the amount of expected credit losses during the duration of the period.

To measure expected credit losses, the Company considers the borrower's (Probability of default, "PD") for the next 12 months and duration, and includes the default loss rate (Loss given default, "LGD") multiplied by the default risk (Exposure at default, "EAD"), and considers the impact of the time value of money, and calculates the expected credit losses for 12 months and duration.

The probability of default is the probability of default of the borrower, and the rate of default is the loss ratio caused by the borrower's default.

The default probability and default loss rate used in the impairment assessment of the credit business of the Company are based on the internal historical information of each combination (such as credit loss experience) and based on current observable information and forward-looking general economic information (eg: the economic growth rate announced by the Accounting Office) after adjusting the historical data, report the average economic growth rate for the first five years of the year, and report the forecast of the economic growth rate for the quarter in the annual accounting office. When the economic growth rate is revised, calculate the expected credit loss by calculating the forward-looking factor based on the difference between the previous five-year average and the current economic growth rate forecast. When the economic growth rate is upward, the forward-looking factor is always 1.

The Company assesses the amount of the loan default risk based on the total book value of the financial assets. In addition, the Company estimates the credit loss factor (CCF) in the 12-month expected credit loss of the loan commitment based on the "Calculation Method for Bank-Owned Capital and Risky Assets and the Form - Credit Risk Standards Act". According to the loan commitment, the part of the agreed financing amount is expected to be used during the future period of the report to determine the amount of default risk used to calculate the expected credit loss.

The estimated techniques or material assumptions used to assess expected credit losses did not change significantly in the year ended December 31, 2018.

H. Forward-looking information considerations

The Company has taken into account forward-looking information when measuring expected credit losses. According to the economic growth rate announced by the Executive Office of the Executive Yuan, the Company reported a simple average of the economic growth rate for the first five years of the year, and reported the forecast of the economic growth rate for the quarter in the annual accounting office.

When compared with the economic growth rate during the repair period, the forward-looking factor is used to calculate the expected credit loss based on the difference between the simple average of the previous five years and the forecast of the economic growth rate of the current quarter. When the economic growth rate is upward, the forward-looking factor is always 1.

The economic growth rate announced by the Comptroller's Office is based on the "General Information on National Income" under the "Statistics Table" of the "National Income and Economic Growth" of the Republic of China Statistical Information Network in the second quarter of the year.

The statistics obtained in February were used for the impairment assessments of February, March and April, the statistics obtained in May, the impairment assessments used in May, June and July, and the statistical data obtained in August. The impairment assessments in August, October and October and the statistics obtained in November are used for the impairment assessment of November, December and next January of each other.

The judgment of the Company on the basis of the amortized cost measurement and the debt instrument investment measured at fair value through other comprehensive gains and losses, the judgment of the significant increase in credit risk is based on the external rating published by domestic and foreign credit rating agencies. The level change is one of its quantitative indicators, and the expected credit loss is measured by reference to the external rating level and Moody's regularly published default rate and default loss rate information. As the international credit rating agencies have considered forward-looking information when assessing credit ratings, the Company's assessment of the forward-looking information is appropriate and is included in the Company's assessment of the expected credit losses.

C. Credit risk hedging or mitigation policy

(A) Collateral

The Company implements a series of policies and measures to reduce credit risk among which one common practice is to request the borrower to provide collateral. In order to protect our credit claims, the Company has stipulated guidelines governing the range of collaterals accepted by the Company and the appraisal, management and disposal of collaterals. Such guidelines are used as the basis for managing the valuation of collaterals and calculation of the collateral to loan value amount. The main types of collateral for the Company's financial assets are as follows:

- (A) Real estate.
- (B) Movable property.
- (C) Securities.
- (D) Ground rights.
- (E) Bank deposit receipts, negotiable deposit certificates, and current demand deposits of the Company.
- (F) Notes receivable arising from the operation of the borrower.
- (G) Credit or other rights that may be granted.

On the other hand, the loan agreement contains credit guarantee provision, collateral clauses and offsetting clauses to clearly define the acceptable terms with regard to decrease in credit limit, moving forward the maturity date and treating the whole outstanding balance as matured, When a credit event occurs in order to reduce credit risk. Collaterals provided as security for other non-credit loans shall be determined according to the nature of the financial instrument. Only asset-backed securities and other similar financial instruments may be secured by an asset pool. The Company's collateral policy has not changed significantly on the balance sheet date, and there has been no significant change in the quality of the overall collateral.

(B) Control of credit risk limit and risk concentration

The Company stipulates respective credit limits for loans granted to a single counterparty and a single group to avoid concentration of risks.

The Company's investments policy and regulations governing control of risks associated with equity investments also include provisions stipulating limits on investments in a single individual (business entity) or a single affiliated enterprise (group). The Company has also set credit limits applicable to each respective industry, enterprise group and county to control asset concentration risks. Concentration of credit risk with respect to a single counterparty, enterprise group, affiliated enterprise, industry, and ultimately country is monitored by an integrated system.



(C) Other credit enhancements
2018

The Company closely observes the value of the collateral of the financial instrument and considers the financial assets that are deducted from the credit impairment. The financial assets that have been credit-deducted and the value of collateral to mitigate potential losses are as follows:

December 31, 2018	Carrying Amount	Allowance for Impairment (IFRS 9 Expected Loss)	Total Risk Exposure (Amortised Cost)	The Value of the Collateral
<u>Impaired financial assets :</u>				
Discounts and loans	\$2,817,030	\$598,323	\$2,218,707	\$2,008,694
Receivables				
- Receivables	55,881	50,310	5,571	—
- Credit cards	751	588	163	—
- Short-term advances	18,717	2,855	15,862	—
Overdue accounts that are not transferred from loans	346	346	—	—
Total	\$2,892,725	\$652,422	\$2,240,303	\$2,008,694

2017

Financial assets recognized in the Company's balance sheet and information on the collateral, general agreement on net amount delivery and other credit enhancement on and off the balance sheet that related to maximum exposure of credit risk is shown below:

December 31, 2017	Collaterals	General agreement on net amount delivery	Other credit enhancement	Total
<u>On-balance-sheet items</u>				
Receivables				
- Credit card	\$ —	\$ —	\$57,919	\$57,919
- Others	105,872	—	—	105,872
Discount and loans	103,044,606	—	4,216,113	107,260,719
Subtotal	\$103,150,478	\$ —	\$4,274,032	\$107,424,510
<u>Off-balance-sheet items</u>				
Irrevocable loan commitments	\$1,707,854	\$ —	\$1,712	\$1,709,566
Letters of credit issued and yet unused	71,742	—	—	71,742
Other guarantees	307,355	—	—	307,355
Subtotal	\$2,086,951	\$ —	\$1,712	\$2,088,663
Total	\$105,237,429	\$ —	\$4,275,744	\$109,513,173

The Company's management considers that, upon evaluation, it is possible to constantly control and minimise the credit risk exposure arising from off-balance-sheet items due to the fact that the Company adopts more stringent credit review procedures and conduct regular post-loan reviews.

D. Maximum exposure to credit risk

The maximum exposure to credit risk arising from on-balance-sheet assets not secured by collateral or other credit enhancement instruments is represented by the assets' carrying amount.

The maximum exposure to credit risk arising from off-balance-sheet assets(not taking account collateral or other credit enhancement instruments and the maximum irrevocable credit risk exposure) is listed as follows:

Off-balance-sheet Items	Maximum Credit Exposure
	December 31, 2017
Irrevocable loan commitments	\$ 9,939,814
Irrevocable credit card commitments	7,015
Letters of credit issued and yet unused	1,341,757
Other guarantees	2,903,025
Total	\$ 14,191,611

E. Concentration of credit risk exposures

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentrations arise from the Company's assets, liabilities, or off-balance-assets items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories, which include credit, loans and deposits, call loan to banks, investments, receivables and derivatives. As of December 31, 2018 and 2017, there was significant concentration of credit risk arising from loans to the Kaohsiung City Government totaling \$22,464,937 thousand, representing 11.91% of total loans, \$23,249,691 thousand, representing 12.73% of total loans, respectively. Information on significant concentration of credit risks of the Company's other credit assets (including discounts and loans, overdue accounts that are not transferred from loans, remittances purchased, guarantee receivable, L/C receivable, acceptances receivable and factoring receivable - non-resource) by industry, region and type of collaterals is summarized as follows:

(A) By industry:

Type of Industry	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
1. Private enterprises	80,315,945	42.57	76,092,347	41.65
2. Public-sector enterprises	4,091,797	2.17	3,383,651	1.85
3. Government institutions	22,439,915	11.90	23,249,439	12.73
4. Not-for-profit organisation	86,481	0.05	92,684	0.05
5. Individuals	63,082,796	33.44	63,915,460	34.98
6. Financial institutions	18,610,897	9.87	15,972,660	8.74
Total	188,627,831	100.00	182,706,241	100.00

(B) By region:

Region	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
R.O.C.	166,810,884	88.44	164,601,831	90.09
Unite States	4,344,732	2.30	10,984,507	6.01
Asia	16,249,830	8.61	5,947,859	3.26
Europe	1,222,385	0.65	1,172,044	0.64
Total	188,627,831	100.00	182,706,241	100.00



(C) By Collateral

Type of Collateral	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Unsecured	70,614,159	37.44	67,838,742	37.13
Secured	118,013,672	62.56	114,867,499	62.87
— Financial collateral	9,323,259	4.94	6,950,003	3.80
— Accounts receivable	922,694	0.49	697,745	0.38
— Real estate property	95,739,098	50.76	95,882,231	52.48
— Guarantee	10,153,109	5.38	9,957,269	5.45
— Other	1,875,512	0.99	1,380,251	0.76
Total	188,627,831	100.00	182,706,241	100.00

F. Analysis of the credit quality of the Company's financial assets:

Some of the financial assets held by the Company, such as cash and cash equivalents, deposits with the Central Bank and interbank borrowings, financial assets measured at fair value through profit or loss, vouchers and bond investments, deposits, operating margins and delivery settlement funds, etc., are good credit ratings from the counterparties, the Company considered the credit risk is extremely low.

In addition to the above, analysis of the credit quality of other financial assets is as follows:

2018:

A. Credit quality analysis on discounts, loans, receivables and overdue accounts that are not transferred from loans

December 31, 2018				
Level Information	Stage 1 12-month expected credit losses	Stage 2 Lifetime credit losses	Stage 3 Lifetime credit losses	Total
Corporate finance-Rating level	120,194,393	8,163	2,161,378	122,363,934
Internal rating A1 、A2 、A3	7,063,347	0	0	7,063,347
Internal rating B1 、B2	35,281,262	8,000	231,268	35,520,530
Internal rating C1 、C2 、C5	28,670,738	0	735,930	29,406,668
Internal rating Bad D	43	0	895,593	895,636
Unrated rating	49,179,003	163	298,587	49,477,753
Consumer finance rating level	62,404,152	215,445	731,347	63,350,944
Premium mortgage	7,875,966	46,477	150,199	8,072,642
Superior mortgage	959,674	20,227	5,852	985,753
Good mortgage	629,745	558	35,243	665,546
Specialized mortgage	7,008,897	26,664	62,330	7,097,891
Internal rating 1-2	21,583,601	10,399	124,140	21,718,140
Internal rating 3-4	11,508,420	28,709	70,744	11,607,873
Internal rating 5-6	1,206,788	6,860	125,587	1,339,235
Unrated rating	11,631,061	75,551	157,252	11,863,864
Total	182,598,545	223,608	2,892,725	185,714,878
Allowance to reduce	1,042,812	1,418	652,422	1,696,652
According to the "Bank Assets Appraisal Loss Preparation and Overdue Lending Collections for Bad Debts", the impairments need to be reimbursed.				580,726
Total				2,277,378

B. Credit quality analysis on guarantee, L/C, loan and financing commitment

December 31, 2018				
Level Information	Stage 1 12-month expected credit losses	Stage 2 Lifetime credit losses	Stage 3 Lifetime credit losses	Total
Corporate finance-Rating level	13,984,265	3,113	15,614	14,002,992
Internal rating A1 、A2 、A3	1,679,656	—	—	1,679,656
Internal rating B1 、B2	5,641,526	—	9,283	5,650,809
Internal rating C1 、C2 、C5	2,853,590	1,513	—	2,855,103
Internal rating Bad D	592	1,600	—	2,192
Unrated rating	3,808,901	—	6,331	3,815,232
Consumer finance rating level	886,503	—	—	886,503
Premium mortgage	—	—	—	—
Superior mortgage	—	—	—	—
Good mortgage	—	—	—	—
Specialized mortgage	—	—	—	—
Internal rating 1-2	633,867	—	—	633,867
Internal rating 3-4	214,899	—	—	214,899
Internal rating 5-6	37,737	—	—	37,737
Unrated rating	—	—	—	—
Total	14,870,768	3,113	15,614	14,889,495
Allowance to reduce	143,574	184	7,176	150,934
According to the "Bank Assets Appraisal Loss Preparation and Overdue Lending Collections for Bad Debts", the impairments need to be reimbursed.				6,077
Total				157,011

2017:

In addition to the above, analysis of the credit quality of other financial assets is as follows:

- According to the concept of the analysis of credit quality of financial assets provided in IFRS 7, “past due” refers to the situation where the counterparty has failed to make payment when the contract matures. For example, if the principal or interest repayments are past due beyond the reasonable grace period, they are deemed “past due”.
- IFRS 7 also provides that “impairment” refers to the situation where financial assets have become impaired as of the reporting dates, that is, there is objective evidence indicating impairment.
- For the purpose of analyzing the credit quality of financial assets, “impaired” financial assets are those as defined in (B) above and do not include all financial assets over which an provision for impairment loss has been made.



a. Credit quality analysis on accounts receivable

On-balance-sheet Receivables	Amount neither past due nor impaired (A)								Amount past due but not impaired (B)	Subtotal (A)+(B)	Amount Impaired (C)	Total (A)+(B)+(C)
	Creditcard receivables	Accrued Revenue	Interest Receivable	Dividends Receivable	Acceptances Receivable	Factoring-non-recourse	Foreign Exchange Receivable	Other Receivables				
Dec.31,2017	165,035	143,335	524,707	—	116,664	—	—	197,585	9,063	1,156,389	92,823	1,249,212

Receivables	Amount provided for impairment loss (D)			Total	Net (A)+(B)+(C)-(D)
	With objective evidence of impairment	With no objective evidence of impairment			
Dec. 31, 2017	92,541	5,253		97,794	1,151,418

b. Credit quality analysis on discounts and loans

December 31, 2017	Amount neither past due nor impaired (A)	Amount past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)		Net (A)+(B)+(C)-(D)
					With objective evidence of impairment	With no objective evidence of impairment	
On-balance-sheet items							
Discounts and loans	175,057,519	712,705	2,551,469	178,321,693	817,786	1,643,756	175,860,151
Overdue accounts that are not transferred from loans	—	—	23,102	23,102	23,102	—	—
Off-balance-sheet items							
Commitments and guarantees	—	—	—	—	—	—	—
Guarantees receivable	2,887,411	15,614	—	2,903,025	—	57,713	2,845,312
L/C receivable	1,323,796	17,961	—	1,341,757	—	—	1,341,757
Total	179,268,726	746,280	2,574,571	182,589,577	840,888	1,701,469	180,047,220

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

December 31, 2017	Amount Neither Past Due Nor Impaired											Total
	Mortgages with "Excellent" credit rating	Mortgages with "good" credit rating	Mortgages with "fair" credit rating	Mortgages with special approval	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	
Consumer Finance												
— Residential mortgage	8,600,569	1,006,439	682,005	12,342,600	—	—	—	—	—	—	5,608,597	28,240,210
— Cash card	—	—	—	—	8,387	490,236	155,260	8,261	595	—	—	662,739
— Microcredit	—	—	—	—	8,820	187,843	59,377	23,800	7,967	2,878	29,933	320,618
— Student loan	—	—	—	—	—	—	—	—	—	—	5,117,671	5,117,671
— Other	—	—	—	—	408,277	16,915,201	4,759,108	4,046,063	678,139	246,426	1,056,928	28,110,141
Total	8,600,569	1,006,439	682,005	12,342,600	425,484	17,593,280	4,973,745	4,078,124	686,701	249,304	11,813,129	62,451,379

Amount Neither Past Due Nor Impaired										
December 31, 2017	Loans to Municipal Government	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Above-average repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total
Corporate Finance										
— Secured	—	238,267	1,034,689	2,021,390	6,055,304	16,725,216	7,862,835	21,650,024	7,175,319	62,763,044
— Unsecured	23,249,691	1,954,050	3,623,825	5,350,860	5,914,645	3,268,186	2,362,539	2,276,332	6,054,175	54,054,303
Total	23,249,691	2,192,317	4,658,514	7,372,250	11,969,949	19,993,402	10,225,374	23,926,356	13,229,494	116,817,347

d. Credit quality of investment in securities

December 31, 2017	Amount Neither Past Due Nor Impaired				Amount past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)	Net (A)+(B)+(C)-(D)
	twAAA~twA- & AAA~A3	twBBB+~twBBB- & Baa1 ~ Baa3	Below or unrated	Subtotal (A)					
Available—for sale financial assets	39,575,815	14,093,934	171,533	53,841,282	—	—	53,841,282	—	53,841,282
— Investment in bonds	14,545,620	14,093,934	—	28,639,554	—	—	28,639,554	—	28,639,554
— Investment in stocks	—	—	171,533	171,533	—	—	171,533	—	171,533
— Other	25,030,195	—	—	25,030,195	—	—	25,030,195	—	25,030,195
Held—to—maturity financial assets	—	—	—	—	—	—	—	—	—
— Investment in bonds	—	—	—	—	—	—	—	—	—
— Other	—	—	—	—	—	—	—	—	—
Other Financial Assets	—	—	1,082,580	1,082,580	—	—	1,082,580	—	1,082,580
— Investment in stocks	—	—	1,082,580	1,082,580	—	—	1,082,580	—	1,082,580
— Investment in bonds	—	—	—	—	—	—	—	—	—
— Other	—	—	—	—	—	—	—	—	—



G. Analysis of the aging of financial assets already past due but not yet impaired for 2017 Delays in processing payments by borrowers and other administrative reasons could result in financial assets being past due but not yet impaired. According to the Company's internal risk management policies, financial assets past due within 90 days are not considered impaired, unless other evidences indicate otherwise.

The aging of financial assets already past due but not yet impaired is analyzed as follows:

Items	December 31, 2017		
	Overdue for less than 1 month	Overdue for 1~3 months	Total
Receivables	1,312	7,751	9,063
— Credit cards	616	216	832
— Interest receivable	696	7,535	8,231
Discounts and loans	273,046	473,234	746,280
Consumer finance	248,611	288,923	537,534
— Residential mortgage	163,637	205,493	369,130
— Cash cards	1,679	—	1,679
— Micro — credit	2,267	749	3,016
— Student loans	65,161	64,294	129,455
— Other	15,867	18,387	34,254
Corporate finance	24,435	184,311	208,746
— Secured	11,897	5,276	17,173
— Unsecured	12,538	179,035	191,573

H. Analysis of impairment of financial assets for 2017

Analysis of impairment of discounts and loans and accounts receivable by client were as follows:

Items		Total Discounts and Loans	Allowance for Doubtful Account
		Dec. 31, 2017	Dec. 31, 2017
With objective evidence of impairment	Individually assessed for impairment	1,246,890	503,008
	Collectively assessed for impairment	1,304,579	314,778
With no objective evidence of impairment	Collectively assessed for impairment	175,770,224	1,643,756
Total		178,321,693	2,461,542

Items		Total Accounts Receivable	Allowance for Doubtful Account
		Dec. 31, 2017	Dec. 31, 2017
With objective evidence of impairment	Individually assessed for impairment	89,394	85,997
	Collectively assessed for impairment (Note)	3,429	6,544
With no objective evidence of impairment	Collectively assessed for impairment	1,156,388	5,253
Total		1,249,212	97,794

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

I. Foreclosed properties management policy

Properties foreclosed by the Company were land and buildings. As of December 31, 2018 and 2017, the carrying amount of foreclosed properties was nil for all respective balance sheet dates.

J. Disclosures in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks”:

(A) Asset quality of non-performing loans and overdue accounts

Year / Month			December 31, 2018				
Type of Business			Amount of Non-Performing Loan (Note 1)	Total Loans	Non-Performing Loan Ratio (Note 2)	Allowance for Doubtful Accounts	Bad Debt Coverage Ratio (Note 3)
Corporate Finance	Secured		521,299	47,397,210	1.10	536,058	102.83
	Unsecured		638,544	72,975,153	0.88	1,134,429	177.66
Consumer Finance	Residential mortgages (Note 4)		175,941	29,081,255	0.60	249,324	141.71
	Cash cards		—	600,971	—	7,704	—
	Micro credit (Note 5)		23,235	1,108,178	2.10	25,715	110.67
	Other (Note 6)	Secured	135,334	30,717,952	0.44	235,603	174.09
		Unsecured	348	1,574,409	0.02	22,071	6,342.24
Loans total			1,494,701	183,455,128	0.81	2,210,904	147.92
			Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Credit Loss	Bad Debt Coverage
Credit Card business			346	151,073	0.23	1,559	450.58
Without recourse factoring (Note 7)			—	—	—	—	—

Year / Month			December 31, 2017				
Type of Business			Amount of Non-Performing Loan (Note 1)	Total Loans	Non-Performing Loan Ratio (Note 2)	Allowance for Doubtful Accounts	Bad Debt Coverage Ratio (Note 3)
Corporate Finance	Secured		164,873	46,237,036	0.36	593,400	359.91
	Unsecured		127,102	68,169,197	0.19	1,201,475	945.28
Consumer Finance	Residential mortgages (Note 4)		339,800	29,191,138	1.16	353,438	104.01
	Cash cards		—	664,417	—	2,749	—
	Micro credit (Note 5)		24,938	1,173,089	2.13	30,759	123.34
	Other (Note 6)	Secured	242,536	31,029,467	0.78	266,471	109.87
		Unsecured	9,181	1,857,349	0.49	13,250	144.32
Loans total			908,430	178,321,693	0.51	2,461,542	270.97
			Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Doubtful Accounts	Bad Debt Coverage Ratio
Credit card business			445	164,118	0.27	1,322	297.08
Without recourse factoring (Note 7)			—	—	—	—	—

Note 1: The amount of non-performing loans was presented in accordance with the “Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The amount included in overdue accounts for credit cards was represented in accordance with the Banking Bureau (4) Letter No.0944000378 dated July 6, 2005.

Note 2: Non-performing loan ratio = non-performing loans/ total loans. Overdue account ratio for credit cards = overdue accounts / balance of accounts receivable.

Note 3: Coverage ratio for loans = allowance for doubtful accounts of loans/ amount of non-performing loans. Coverage ratio for credit card accounts receivable=allowance for doubtful account; accpimts / amount of overdue accounts.

Note 4: Residential mortgage is a form of financing secured by a residential property acquired (owned) by the borrower or his or her spouse or minor children, obtained by the borrower from the Bank for the purpose of purchasing the property or adding improvements to the dwelling.

Note 5: Micro-credit is regulated by the Banking Bureau Letter (4) No. 09440010950 dated December 19, 2005. It is a type of finance other than credit obtained from credit cards or cash cards.

Note 6: Consumer finance-other refers to other secured or unsecured consumer loans other than residential mortgages, cash cards and micro-credit.

Note 7: Pursuant to the Banking Bureau (5) Letter No. 0945000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolved not to compensate the loss.



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

Items	December 31, 2018		December 31, 2017	
	Balance of Non-performing Loans Exempt	Balance of Overdue Receivables Exempt	Balance of Non-performing Loans Exempt	Balance of Overdue Receivables Exempt
Amount exempt as a result of debt negotiation and performance in accordance with agreement (Note 1)	145	4	232	10
Amount exempt as a result of debt liquidation program and restructuring program (Note 2)	105,451	619	107,385	540
Total	105,596	623	107,617	550

Note 1: The amounts of non-performing loans and overdue receivables disclosed as a result of being exempt under debt negotiation arrangements pursuant to the Explanatory Letter Jin-Guan-Yin (1) No. 09510001270 dated April 25, 2006.

Note 2: The amounts of non-performing loans and overdue receivables disclosed as a result of being exempt under the debt liquidation and restructuring program pursuant to the Explanatory Letter Jin-Guan-Yin (1) No. 09700318940 of the FSC dated September 15, 2008 and No.10500134790 of the FSC dated September 20, 2016.

(C) Concentration of credit risk exposures of the Company:

Year	December 31, 2018			December 31, 2017		
Ranking (Note 1)	Industry (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / current net worth (%) (Note 4)	Industry (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / current net worth (%) (Note 4)
1	A Group (Real Estate Development Industry)	2,170,151	15.02	A Group (Real Estate Development Industry)	2,719,123	19.17
2	B Group (Real Estate Development Industry)	1,818,440	12.59	B Group (Real Estate Development Industry)	2,180,503	15.37
3	C Group (Sports Stadium Industry)	1,702,732	11.79	C Group (Real Estate Development Industry)	2,012,000	14.18
4	D Group (Other financial intermediation)	1,685,872	11.67	D Group (Other financial intermediation)	1,661,477	11.71
5	E Group (Real Estate Development Industry)	1,622,271	11.23	E Group (Sports Stadium Industry)	1,657,489	11.68
6	F Group (Real Estate Development Industry)	1,577,813	10.92	F Group (Other financial intermediation)	1,514,420	10.67
7	G Group (Other financial intermediation)	1,478,988	10.24	G Group (Real Estate Development Industry)"	1,502,749	10.59
8	H Group (Real Estate Development Industry)	1,347,122	9.33	H Group (Ship and Parts Manufacturing Industry)	1,190,941	8.39
9	I Group (Real Estate Development Industry)	1,325,710	9.18	I Group (Real Estate Development Industry)	1,100,459	7.76
10	J Group (Mortuary Services)	1,199,070	8.30	J Group (Real Estate Leasing and Sale Industry)	1,020,000	7.19

Note 1: The top ten enterprise groups other than government and public-sector enterprises according to their total amounts of outstanding loans.

Note 2: The term "enterprise group" refers to a group of corporate entities as defined by Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings".

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptances receivable and guarantees.

Note 4: Total outstanding loans amount / current net worth: net worth for domestic banks is calculated using the net worth of the Head Office where net worth for branch(es) of a foreign bank in Taiwan shall be calculated using the net worth of the branch(es).

(4) Liquidity risk

A. Sources and definition of liquidity risk

The Company defines liquidity risk as the potential financial loss that may be suffered by the Company as a result of inability to liquidate assets or obtain the finances required to meet financial obligations that are falling due. Examples include prepayment of deposits, channels through which and conditions under which the Company is able to obtain inter-bank loans have deteriorated or become more difficult due to specific

market conditions, borrower's default status deteriorated and funds are not repaid according to schedule and difficulty in liquidating investments. Circumstances described above may reduce the level of the Company's available cash to conduct business activities such as extension of loans or trading and investments. Under extreme circumstances, illiquidity may potentially cause an overall decrease in the Company's balance-sheet positions, disposal of assets or inability to carry out loan commitments. Liquidity risk is inherent in the bank operations and may be affected by industry-specific or market events. The events include but not limited to: credit event, merger or acquisition, systematic shock and natural disaster.

B. Liquidity risk management policy

With the aim of maintaining long-term profitability and business growth, the Company adopts a management strategy that is in between the pro-active and passive approach to manage the liquidity of our NTD funds.

a. The following benchmarks are used to evaluate and monitor the liquidity level of the Company's NTD funds:

- (A) Cashflow gap for obligations falling due within 30 days (incl.).
- (B) Cashflow gap for all other maturities
- (C) Provide a deposit reserve in accordance with the regulatory ratio prescribed by the Central Bank.
- (D) Liquidity reserve shall not fall below the minimum liquid assets to liabilities ratio for financial institutions prescribed by Central Bank.
- (E) Deposit to loan ratio.
- (F) Liabilities purchased (NCD issued) to deposits ratio. The following benchmarks are used to evaluate and monitor the liquidity level of the Company's major currency funds: The following benchmarks are used to evaluate and monitor the

b. liquidity level of the Company's major currency funds:

- (A) Liquidity gap for the respective maturities to total assets ratio.
- (B) Deposit reserve ratio provided in accordance with the Central Bank requirements.

The risk management department examines the benchmark statistics on quarterly basis and reports such information to the assets-liabilities and risk management Committee for presentation a quarterly basis to the Board of Directors for approval.

The Company shall also establish respective limits applicable to inter-bank loans from other banks and review the limits once a year to enhance the liquidity level.

C. Maturity analysis of non-derivative financial liabilities

The analysis of cash outflows associated with non-derivative financial liabilities of the Company is made according to the number of days remaining from the balance sheets date to the respective contract's maturity date. The amounts disclosed below were prepared on the basis of the cash flows arising from the contracts and as such may not correspond to the amounts of related items presented on the balance sheets.

December 31, 2018	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Due to Central Bank and other banks	8,455,456	140,790	9,870	89,340	—	8,695,456
Bills and bonds sold under repurchase agreements	10,402,992	27,849	—	—	—	10,430,841
Accounts payable	3,544,462	346,462	83,932	91,286	39,584	4,105,726
Deposits and remittances	26,794,205	31,990,679	32,685,926	46,918,395	84,896,908	223,286,113
Bank debentures	—	—	—	—	6,300,000	6,300,000
Other capital outflow upon maturity	82,889	5,756	6,798	2,591	311,778	409,812



December 31, 2017	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Due to Central Bank and other banks	5,109,722	646,815	13,400	153,210	—	5,923,147
Bills and bonds sold under repurchase agreements	5,333,040	34,365	—	—	—	5,367,405
Accounts payable	3,265,469	211,182	39,588	106,306	37,118	3,659,663
Deposits and remittances	30,905,871	34,064,252	33,387,233	48,499,112	82,892,360	229,748,828
Bank debentures	—	—	—	—	4,000,000	4,000,000
Other capital outflow upon maturity	9,247	7,777	5,827	13,673	338,970	375,494

The maturity analysis of demand deposits included in “Deposits and Remittances” in the above table is conducted across different maturity periods based on the past experience. Based on the assumption that all demand deposits must be repaid within the closest maturity as of December 31, 2018 and 2017, cash outflow in the next 0~30 days will increase by \$ 90,947,645 thousand and \$87,800,471 thousand, respectively.

D. Maturity analysis of derivative financial liabilities

Derivatives settled in gross amounts

The Company settles the following derivative instruments on gross amounts:

- Foreign exchange derivatives: foreign exchange futures and currency swaps.
- Interest rate derivatives: currency swap and interest swap.
- Credit derivatives: all credit default swaps are represented in gross amounts. Periodic payments are made to the buyer of the credit guarantee. A lump-sum payment is made to the buyer of the credit guarantee when a credit risk event occurs.

The Company's derivatives instruments settled in gross amounts are presented in the following table according to the days remaining from the balance sheets date to the respective contract's maturity date. Upon evaluation, a contract's maturity date is fundamental in understanding all derivative instruments presented on the balance sheets. The amounts disclosed below were prepared on the basis of the cash flows arising from the contracts and as such may not correspond to the amounts of related items presented on the balance sheets. The maturity of derivative financial liabilities settled in gross amounts is analyzed as follows:

December 31, 2018	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Financial liabilities at fair value through profit or loss						
— Foreign exchange derivatives	9,313,425	1,886,360	3,281,920	—	—	14,481,705
— Cash outflow	4,663,218	979,880	1,675,929	—	—	7,319,027
— Cash inflow	4,650,207	906,480	1,605,991	—	—	7,162,678
— Interest rate derivatives	—	—	—	—	—	—
— Cash outflow	—	—	—	—	—	—
— Cash inflow	—	—	—	—	—	—
Derivative financial liabilities for hedging purpose						
— Foreign exchange derivatives	—	—	—	—	—	—
— Cash outflow	—	—	—	—	—	—
— Cash inflow	—	—	—	—	—	—
— Interest rate derivatives	—	—	—	—	—	—
— Cash outflow	—	—	—	—	—	—
— Cash inflow	—	—	—	—	—	—
Total cash outflow	4,663,218	979,880	1,675,929	—	—	7,319,027
Total cash inflow	4,650,207	906,480	1,605,991	—	—	7,162,678
Net cashflow	13,011	73,400	69,938	—	—	156,349

December 31, 2017	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Financial liabilities at fair value through profit or loss						
- Foreign exchange derivatives	2,257,848	609,315	123,866	—	—	2,991,029
- Cash outflow	1,110,198	302,406	60,026	—	—	1,472,630
- Cash inflow	1,147,650	306,909	63,840	—	—	1,518,399
- Interest rate derivatives	—	—	—	—	—	—
- Cash outflow	—	—	—	—	—	—
- Cash inflow	—	—	—	—	—	—
Derivative financial liabilities for hedging purpose						
- Foreign exchange derivatives	—	—	—	—	—	—
- Cash outflow	—	—	—	—	—	—
- Cash inflow	—	—	—	—	—	—
- Interest rate derivatives	—	—	—	—	—	—
- Cash outflow	—	—	—	—	—	—
- Cash inflow	—	—	—	—	—	—
Total cash outflow	1,110,198	302,406	60,026	—	—	1,472,630
Total cash inflow	1,147,650	306,909	63,840	—	—	1,518,399
Net cashflow	(37,452)	(4,503)	(3,814)	—	—	(45,769)

E. Maturity analysis of off-balance-sheet items

The maturity analysis of off-balance sheets items of the Company shows the days remaining from the balance sheets date to the maturity date. For financial guarantee contracts that were issued, the maximum guarantee amounts that may be claimed were included in the nearest maturity period. The amounts disclosed below were prepared on the basis of the cash flows arising from the contracts and as such may not correspond to the amounts of related items presented on the balance sheets.

December 31, 2018	Under 1 year	1 ~ 5 year	More than 5 years	Total
Irrevocable loan commitment	3,651,757	6,032,543	307,518	9,991,818
Irrevocable credit card commitment	1,978	6,482	—	8,460
Unused letters of credit	1,398,102	—	—	1,398,102
Other guarantees	2,021,419	1,461,832	7,864	3,491,115
Total	7,073,256	7,500,857	315,382	14,889,495

December 31, 2017	Under 1 year	1 ~ 5 year	More than 5 years	Total
Irrevocable loan commitment	4,358,638	5,077,304	503,872	9,939,814
Irrevocable credit card commitment	38	6,977	—	7,015
Unused letters of credit	1,341,757	—	—	1,341,757
Other guarantees	1,646,554	1,248,399	8,072	2,903,025
Total	7,346,987	6,332,680	511,944	14,191,611

F. Maturity analysis of lease agreement and capital expenditure commitments

The lease agreement commitments of the Company are operating lease commitments, which refer to the total minimum lease payments the Company should make as a lessor or a lessee under irrevocable operating lease terms and conditions.

The Company's capital expenditures commitments refer to the agreement signed by the Company to obtain the capital required for acquiring building and equipment.

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



December 31, 2018	Under 1 year	1 ~ 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	\$81,048	\$225,715	\$10,590	\$317,353
Operating lease inflow (lessor)	11,304	19,110	7,002	37,416
Capital expenditure commitment	\$ —	\$ —	\$ —	\$ —

December 31, 2017	Under 1 year	1 ~ 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	\$78,958	\$134,219	\$16,107	\$229,284
Operating lease inflow (lessor)	10,101	17,804	—	27,905
Capital expenditure commitment	\$ —	\$ —	\$ —	\$ —

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

(A) The maturity structure of the Company's NTD capital

December 31, 2018							
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	220,835,446	26,234,205	32,124,741	16,377,403	15,280,979	21,749,650	109,068,468
Main maturing capital outflow	264,044,283	11,010,561	12,424,366	26,337,168	32,681,166	48,417,291	133,173,731
Maturity gap	(43,208,837)	15,223,644	19,700,375	(9,959,765)	(17,400,187)	(26,667,641)	(24,105,263)

December 31, 2017							
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	230,272,797	32,132,960	42,819,659	14,774,265	14,289,591	20,812,171	105,444,151
Main maturing capital outflow	277,103,013	11,192,365	16,966,758	30,835,137	33,211,080	52,737,411	132,160,262
Maturity gap	(46,830,216)	20,940,595	25,852,901	(16,060,872)	(18,921,489)	(31,925,240)	(26,716,111)

(B) Maturity gap of the Company' USD capital

Unit: US\$ Thousand

December 31, 2018						
	Total	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	1,328,072	247,130	44,086	57,056	55,192	924,608
Main maturing capital outflow	1,559,771	629,745	326,552	143,263	237,123	223,088
Maturity gap	(231,699)	(382,615)	(282,466)	(86,207)	(181,931)	701,520

December 31, 2017						
	Total	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	917,641	111,976	73,157	31,235	44,163	657,110
Main maturing capital outflow	1,135,753	415,384	257,490	138,861	168,984	155,034
Maturity gap	(218,112)	(303,408)	(184,333)	(107,626)	(124,821)	502,076

5. Market Risk

A. Sources and definition of market risk

Market risk refers to the risk of changes in the fair value or future cash flows of on-and off-balance-sheet financial instruments held by the due to adverse changes in market prices in terms of interest rates, foreign exchange rates, stock prices, and commodity prices. Essentially, it refers to the risk of fluctuations in the

Company's net profit or the values of investment portfolios as a result of changes in the aforesaid risk factors. Market risk confronting the Company mainly arises from fluctuations in the prices of equity instruments, interest rates and exchange rates. Positions in equity securities that are subject to market risk mainly consist of stocks listed on the stock/OTC exchanges and emerging stocks, funds, and ETFs. Positions subject to interest rate risks include bonds and interest rate derivatives (such as fixed and floating interest rate swaps); positions subject to currency exchange risks primarily comprise of the various derivative instruments denominated in foreign currencies, and the various foreign-currency bonds.

B. Market risk management policy

The Company monitors positions subject to market risk and the tolerable losses in accordance with the risk management objectives and limits approved by the Board of Directors.

The Company has set a market risk information system to effectively monitor the risk limits of the positions of financial instruments, sensitivity (DV01) and compute the value at risk (VaR). Such information is presented at the Assets-Liabilities and Risk Management Committee and Board of Directors' meetings as guidelines for decision making by senior management.

The Risk Management Department of the Company is primarily responsible for reporting to senior management on a regular basis the control status of investment portfolios. Such information is also communicated with the relevant departmental supervisors.

C. Market risk management procedures

(A) Identification and measurement

The business units and risk management unit of the Company has set market risk factors to identify positions exposed to risks and to measure market risk. Market risk factors refer to factors that may affect the value of interest rate, exchange rate and equity securities positions. Such factors include positions, sensitivity, stress testing and value at risk, which are used to measure the impact of interest risks, exchange rate risks and equity securities risks on the investment portfolios.

(B) Control and reporting

The Risk Management Department of the Company reports the information on the execution of market risk management objectives, positions, sensitivity, stress testing and VaR to the ALCO (Assets-Liabilities and Risk Management Committee) or senior management and the departmental supervisor of the relevant business units. The Company has set clearly defined reporting procedures and all transactions are governed by specific risk limits and stop loss regulations. For example, where a transaction has reached the stop-loss limit, such transaction must be terminated immediately or the trading unit must submit in detail reasons for continuing the transaction and responsive measures to the Investment Review Committee or senior management for approval.

D. Trading-book risk management policy

Trading-book positions refer to financial instruments and physical commodities held for trading purposes or to hedge against trading-book positions. Positions held for earning profits from changes in bid-ask spread or changes in price and interest rate.

Positions that do not belong to trading book are assigned to Banking book.

(A) Strategy

The Company undertakes assessments and exercise controls to effectively control market risk and ensure that trading strategies adopted by business units are relatively free from constraints. The Company formulates risk limits for the respective investment portfolios on the basis of trading strategies, type of product and annual profit target to manage trading-book investment portfolios.

(B) Policies and procedures

The Company has formulated the "Market Risk Management Guidelines" and "Trading Book Policy and Procedures" as the key regulations to monitor trading-book positions.

(C) Valuation policy

Where market prices are available for valuation of trading-book financial instruments, the positions shall be valued at least once daily using readily available information obtained from independent resources.

(D) Methods of risk measurement

a. Refer to Note 12.4 (5) I for assumptions and methods used to calculate VaR.

b. The Company conducts stress testing under scenarios based on 100bp changes in interest rate, 15%



change in the price of equity securities and 3% of major currency exchange rates. Results of stress testing are presented at the ALCO and Board of Directors' meetings.

E. Management of trading-book interest rate risk

(A) Definition of interest rate risk

"Interest rate risk" refers to the risk of changes in the fair value of the trading-book positions held by the Company or risk of financial loss as result of interest rate movements. Instruments subject to interest rate risk include securities and derivative instruments linked to interest rate.

(B) Trading-book interest rate management procedures

The Company carefully selects investment targets by conducting research on the issuer's credit standing and financial status, country risk and interest rate trends.

The Company also formulates limits applicable to trading-book transactions and stop-loss limit (applicable to the trading unit, trader, and instruments traded) on the basis of management strategies and market conditions for approval by senior management or the Board of Directors.

(C) Methods of measurement

a. Refer to Note 12.4 (5) I for VaR assumptions and computation method.

b. Use DV01 to measure the degree of impact of interest rate risks on the investment portfolios on a monthly basis.

F. Management of banking-book interest rate risk

Management of banking-book interest rate risk is primarily aimed at enhancing interest rate risk management, improving the efficiency of capital utilization.

(A) Strategy

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

(B) Management procedures

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

The Company monitors the risk limits applicable to positions exposed to interest rate risk and the various interest rate management indicators on a monthly basis.

The monitoring results are reported to the ALCO and periodically to the Board of Directors.

(C) Method of measurement

The Company measures the interest rate repricing risk arising from different repricing dates of the Company's assets and liabilities. To ensure long-term profitability and business growth, the Company has formulated monitoring indicators to conduct stress testing on the interest rate sensitivity of major maturities. The various interest rate risk indicators and results of stress testing are presented to the ALCO each month for approval.

G. Management of exchange rate risk

(A) Definition of exchange rate risk

Exchange rate risk refers to the profit and loss arising from conversion from one currency to the other in different time periods. Exchange rate risk confronting the Company originates from spot and forward exchange contracts as well as derivatives.

The Company aims to square all foreign exchange positions on a daily basis and as such, are subject to relatively low exchange rate risks.

(B) Exchange rate risk management policy, procedures and method of measurement

Exchange rate risks of the Company are monitored using VaR. Please refer to

Note 12.4 (5) I for further details, and stipulate transaction limits and stop-loss limits applicable to each trading unit and trader.

The Company conduct stress testing on exchange rate risks at least once a year under scenarios with a 3% change in the exchange rate of major currencies. Results of stress testing are presented to the ALCO and

Board of Directors for approval.

Please refer to Note 12.4 (5) I for further details on stress testing.

H. Management of price risk of equity securities

(A) Definition of the price risk of equity securities

Mark risk confronting the Company includes individual risks arising from changes in the market price of individual equity securities as well as general market risk arising from a general movement in market prices.

(B) The purpose for managing the price risk of equity securities

Price risk management aims at preventing severe fluctuations in the prices of equity securities from causing a deterioration in The Company's financial status or profitability and aims at improving the efficiency of fund utilization and ensuring sound business operation.

(C) Procedures for managing the price risk of equity securities

The Company stipulates investment limits applicable to the respective counterparties and industries and use the β value to measure the degree by which equity securities and funds are affected by systematic risk on a monthly basis. Stop-loss regulations are reviewed and approved by the Board of Directors. If a trading unit continues to hold a trading position in the situation where the stop-loss limit has been reached, special approval is required from the Investment Review Committee.

(D) Method of measurement

Price risk arising from trading-book equity securities is controlled on the basis of VaR.

Please refer to Note 12.5 (5) I for further details.

Price risk arising from non-trading book equity securities held by the Company is monitored by appropriate mechanisms designed specifically to meet the needs of the Company's business development. The Long-term Investment Review Committee receives periodic reports on price risk.

I. Market risk valuation technique

(A) VaR (Value at Risk, VaR)

The Company uses the VaR model to conduct monthly evaluation on the market risk of positions held and the maximum potential loss that may arise for reporting to the ALCO and senior management.

Value at risk is a statistical estimate of potential losses on current positions that may result from adverse market movements. VaR is defined as "the worst expected loss" over a target horizon with a given level of confidence (99%) and normal market environment. As such, it is still probable (1%) that the actual loss may exceed the VaR estimate. The VaR model assumes a minimum holding period (10 business days) prior to closing off the positions. The Company evaluates the VaR of positions held by the Historical Simulation Method. This valuation method cannot prevent losses as a result of severe market fluctuations.

Items	For the year ended December 31					
	2018			2017		
	Average	Highest	Lowest	Average	Highest	Lowest
Foreign exchange VaR	125,296	195,966	61,226	76,847	114,484	58,407
Interest rate VaR	64,429	87,294	54,736	23,016	32,031	16,044
Equity securities VaR	31,228	42,216	23,057	9,946	17,549	3,320
Less: risk diversification effects	81,496	118,468	50,584	44,332	76,607	29,371

(B) Stress testing

Stress testing is used to measure the maximum potential loss arising from the risk asset portfolios that may be suffered by the Company in the worst case scenario. The Risk Management Dept. conducts stress testing on interest rate risk, exchange rate risk and equity securities risk. Results of stress testing are presented to the ACLO and Board of Directors for approval.

J. Concentration of exchange rate risk

The following table shows the concentration of exchange rate risk exposures arising from all assets and liabilities expressed in the respective currencies and carrying amounts held by the Company as of December 31, 2018 and 2017 (only information for the top 4 currencies is disclosed).



Unit: FCY / NTD Thousand

	December 31, 2018			
	USD	AUD	CNY	ZAR
<u>Foreign-currency Financial Assets</u>				
Cash and cash equivalents	\$6,290	\$2,659	\$18,089	\$4,415
Due from Central Bank and call loans to banks	20,500	—	—	—
Financial assets at fair value through profit or loss	2,063	—	—	92,533
Financial assets at fair value through other comprehensive income	223,312	184,103	329,642	169,488
Investments in debt instruments at amortizes cost	206,242	127,943	226,105	109,992
Accounts receivable	18,465	—	—	—
Discounts and loans	664,917	10,000	39,552	—
Other financial assets	1	—	—	—
Properties and equipment, net	24	—	—	—
Other assets	74,771	—	204,261	210,177
Total assets	\$1,216,585	\$324,705	\$817,649	\$586,605
Exchange rate	30.73	21.66	4.474	2.125
NTD equivalent of total assets	\$37,385,657	\$7,033,110	\$3,658,162	\$1,246,536
<u>Foreign Currency Financial Liabilities</u>				
Due to Central Bank and other banks	\$177,758	\$93,500	\$30,000	\$85,000
R/P bills and bonds liabilities	225,680	159,798	—	—
Deposits and remittances	775,390	66,576	784,789	500,310
Other financial liabilities	878	—	—	—
Accounts payable	3,051	2	2,750	—
Other liabilities	3,292	4,744	—	1,295
Total liabilities	\$1,186,049	\$324,620	\$817,539	\$586,605
Exchange rate	30.73	21.66	4.474	2.125
NTD equivalent of total liabilities	\$36,447,286	\$7,031,269	\$3,657,669	\$1,246,536

Unit: FCY / NTD Thousand

	December 31, 2017			
	USD	AUD	CNY	ZAR
<u>Foreign — currency Financial Assets</u>				
Cash and cash equivalents	\$26,931	\$7,502	\$14,907	\$12,389
Due from Central Bank and call loans to banks	6,500	—	—	—
Financial assets at fair value through profit or loss	2,235	—	—	52,000
Available — for — sale financial assets	263,869	169,180	239,652	205,075
Accounts receivable	9,800	—	—	—
Discounts and loans	565,698	10,000	118,907	—
Held — to — maturity financial assets	—	—	—	—
Other assets	25,677	424	43,826	212,588
Total assets	\$900,710	\$187,106	\$417,292	\$482,052
Exchange rate	29.765	23.20	4.569	2.406
NTD equivalent of total assets	\$26,809,633	\$4,340,859	\$1,906,607	\$1,159,817
<u>Foreign Currency Financial Liabilities</u>				
Due to Central Bank and other banks	\$105,000	\$36,500	\$—	\$110,000
R/P bills and bonds liabilities	105,786	94,107	—	—
Deposits and remittances	629,333	56,499	417,290	367,079
Accounts payable	1,790	—	2	3,678
Other liabilities	35,044	—	—	1,295
Total liabilities	\$876,953	\$187,106	\$417,292	\$482,052
Exchange rate	29.765	23.20	4.569	2.406
NTD equivalent of total liabilities	\$26,102,506	\$4,340,859	\$1,906,607	\$1,159,817

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

Unit: NT\$ Thousand

Items	December 31, 2018			December 31, 2017		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	1,186,513	30.73	36,461,544	879,684	29.765	26,183,794
GBP	10,372	38.92	403,678	3,474	40.090	139,273
HKD	282,636	3.924	1,109,064	161,135	3.808	613,602
AUD	324,705	21.66	7,033,110	186,682	23.200	4,331,022
SGD	1,285	22.48	28,887	14,410	22.260	320,767
CHF	396	31.21	12,359	546	30.450	16,626
CAD	11,886	22.58	268,386	13,550	23.720	321,406
JPY	1,804,791	0.2781	501,912	1,864,146	0.2646	493,253
CNY	613,388	4.474	2,744,298	373,466	4.569	1,706,366
ZAR	376,428	2.125	799,910	269,463	2.406	648,328
SEK	208	3.420	711	70,330	3.610	253,891
KRW	49,840	0.0275	1,371	—	—	—
EUR	5,154	35.200	181,421	7,369	35.580	262,189
NZD	20,122	20.620	414,916	26,068	21.130	550,817
Non—monetary Items						
USD	426	30.730	13,091	1,643	29.765	48,904
Financial Liabilities						
Monetary Items						
USD	1,184,394	30.73	36,396,428	842,189	29.765	25,067,756
GBP	4,172	38.92	162,374	3,767	40.090	151,019
HKD	76,989	3.924	302,105	111,201	3.808	423,453
AUD	319,875	21.66	6,928,493	187,106	23.200	4,340,859
SGD	4,677	22.48	105,139	13,390	22.260	298,061
CHF	311	31.21	9,706	534	30.450	16,260
CAD	11,716	22.58	264,547	13,646	23.720	323,683
JPY	1,822,289	0.2781	506,779	1,952,843	0.2646	516,722
CNY	817,539	4.474	3,657,669	417,292	4.569	1,906,607
ZAR	586,605	2.125	1,246,536	482,052	2.406	1,159,817
SEK	93	3.420	318	—	3.610	—
EUR	8,149	35.20	286,845	7,384	35.580	262,723
NZD	12,133	20.62	250,182	33,566	21.130	709,250
Non—monetary Items						
USD	1,655	30.73	50,858	785	29.765	23,366

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

(A) Interest rate sensitivity of the Company's assets and liabilities (NTD)

December 31, 2018					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	178,628,946	6,058,150	567,689	19,377,724	204,632,509
Interest rate sensitive liabilities	151,973,869	15,281,232	19,824,869	7,447,262	194,527,232
Interest rate sensitivity gap	26,655,077	(9,223,082)	(19,257,180)	11,930,462	10,105,277
Net worth					13,519,332
Ratio of interest rate sensitive assets to liabilities (%)					105.19
Ratio of interest rate sensitivity gap to net worth (%)					74.75



December 31, 2017					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	193,580,270	5,495,531	822,727	14,029,690	213,928,218
Interest rate sensitive liabilities	154,094,003	18,172,361	27,345,853	5,688,858	205,301,075
Interest rate sensitivity gap	39,486,267	(12,676,830)	(26,523,126)	8,340,832	8,627,143
Net worth					13,489,384
Ratio of interest rate sensitive assets to liabilities (%)					104.20
Ratio of interest rate sensitivity gap to net worth (%)					63.96

Explanation 1: Refer to total NTD assets and liabilities of all onshore branches of the Company, excluding contingent assets or liabilities.

Explanation 2: Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.

Explanation 3: Interest rate sensitivity gap = interest rate sensitive assets - interest rate sensitive liabilities.

Explanation 4: Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets ÷ interest rate sensitive liabilities (refer to NTD interest rate sensitive assets and interest rate sensitive liabilities).

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

Unit: NT\$ Thousand ; %

December 31, 2018					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	785,259	49,892	1,491	289,313	1,125,955
Interest rate sensitive liabilities	869,363	79,554	126,410	103,500	1,178,827
Interest rate sensitivity gap	(84,104)	(29,662)	(124,919)	185,813	(52,872)
Net worth					30,123
Ratio of interest rate sensitive assets to liabilities (%)					95.51
Ratio of interest rate sensitivity gap to net worth (%)					(175.52)

December 31, 2017					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	576,601	64,498	1,920	222,323	865,342
Interest rate sensitive liabilities	594,082	93,447	66,792	85,750	840,071
Interest rate sensitivity gap	(17,481)	(28,949)	(64,872)	136,573	25,271
Net worth					23,439
Ratio of interest rate sensitive assets to liabilities (%)					103.01
Ratio of interest rate sensitivity gap to net worth (%)					107.82

Explanation 1: Refer to total USD assets and liabilities of all onshore branches of the Company, excluding contingent assets or liabilities.

Explanation 2: Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.

Explanation 3: Interest rate sensitivity gap = interest rate sensitive assets - interest rate sensitive liabilities.

Explanation 4: Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets ÷ interest rate sensitive liabilities (refer to USD interest rate sensitive assets and interest rate sensitive liabilities).

(6) Transfer of Financial Assets

A. Transferred financial assets not removed in whole

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

The following table shows the financial assets and other financial liabilities not qualified for removal in whole:

December 31, 2018		
Financial assets category	Book value of transferred financial assets	Book value of related financial liabilities
Financial assets at fair value through other comprehensive income		
R/P contracts	2,717,620	2,522,406
Financial assets at amortized cost		
R/P contracts	8,775,767	7,908,435

December 31, 2017		
Financial assets category	Book value of transferred financial assets	Book value of related financial liabilities
Financial assets available for sales		
R/P contracts	5,723,877	5,367,405
Financial assets held-to-maturity		
R/P contracts	—	—

(7) Offsetting between financial assets and financial liabilities

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

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

December 31, 2018:

Financial assets	Recognized total financial assets	Recognized total financial liabilities offset on balance sheet	Net financial assets on balance sheet	Amount not offset on balance sheet		
				Financial instruments	Collaterals in cash received	Net amount
Derivatives	\$33,769	\$—	\$33,769	(\$7,105)	\$—	\$26,664

Financial liabilities	Recognized total financial liabilities	Recognized total financial assets offset on balance sheet	Net financial liabilities on balance sheet	Amount not offset on balance sheet		
				Financial instrument	Collaterals in cash under lien	Net amount
Derivatives	\$199,806	\$—	\$199,806	(\$7,105)	\$—	\$192,701
R/P bills and bond liabilities	10,430,841	—	10,430,841	(10,430,841)	—	—
Total	\$10,630,647	\$—	\$10,630,647	(\$10,437,946)	\$—	\$192,701



December 31, 2017 :

Financial assets	Recognized total financial assets	Recognized total financial liabilities offset on balance sheet	Net financial assets on balance sheet	Amount not offset on balance sheet		
				Financial instruments	Collaterals in cash received	Net amount
Derivatives	\$45,384	\$—	\$45,384	(\$190)	(\$45,194)	\$—

Financial liabilities	Recognized total financial liabilities	Recognized total financial assets offset on balance sheet	Net financial liabilities on balance sheet	Amount not offset on balance sheet		
				Financial instrument	Collaterals in cash under lien	Net amount
Derivatives	\$989	\$—	\$989	(\$190)	(\$799)	\$—
R/P bills and bond liabilities	5,367,405	—	5,367,405	(5,330,246)	(37,159)	—
Total	\$5,368,394	\$—	\$5,368,394	(\$5,330,436)	(\$37,958)	\$—

12.5 Capital Management

(1) Overview

The Company adopts the following capital management objectives:

- The primary objectives of the Company in capital management is to ensure that the core capital of the Company meets the regulatory capital requirement and shall at least equal to the minimum capital adequacy ratio required by law. The Company follows the regulations enforced by the competent authority for calculation of the core capital and regulatory capital.
- Capital requirement is estimated on the basis of the risk components and features of the risks the Company bounds to confront for proper risk management and the optimization allocation of assets so that the Company has sufficient capital to tackle with the risks.

(2) Capital Management Procedures

The Company maintain an adequate capital adequacy ratio that meets the requirements of the competent authority. The Company lodges the capital adequacy ratio with the competent authority on a quarterly basis. The Company possesses Tier I Capital and Tier II capital as equity in accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Companies” of FSC:

- Tier 1 Capital: Including common stock equity tier 1 capital and other non-common equity tier 1 capital.
 - Common stock equity tier 1 capital: Refers to common stock equity (ordinary share capital and share premium, additional paid-in capital, legal reserve, special reserve, accumulated earnings, non-controlling interests, other component of equity, and etc.) deducting intangible assets, deferred income tax assets from the previous year, the insufficiency of operation reserves and loan loss provisions, properties revaluation increments, unamortized loss on sale of substandard debts and other adjustments prescribed by other calculation methods and regulations.
 - Other non-common equity tier 1 capital: Including non-cumulative perpetual preferred stock and share premium, non-cumulative perpetual subordinated debt, non-cumulative perpetual preferred stock and share premium issued by the subsidiary of the Company and not directly or indirectly held by the Company, and noncumulative perpetual subordinated debt.

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

(3)Capital adequacy ratio

Unit: NT\$ Thousand ; %

Item analysis			Year ^(Note 2)	December 31, 2018	December 31, 2017
Equity Capital	Common stock equity			13,799,228	13,336,546
	Other tier 1 capital			534,738	—
	Tier 2 capital			4,270,808	3,424,780
	Equity capital			18,604,774	16,761,326
Risk-weighted assets	Credit Risk	Standards Act		158,684,608	150,145,883
		Internal Rating-Based Approach			
		Asset Securitization			
	Operational Risk	Basic indicator method		6,145,285	6,097,877
		Standards Act / selective Standards Act			
		Advanced Measurement Approach			
	Market Risk	Standards Act		3,614,931	1,200,934
		Internal model method			
	Risk-weighted assets			168,444,824	157,444,694
Capital Adequacy Ratio				11.05	10.65
Common stock equity / Risk assets				8.19	8.47
Tier 1 capital / Risk assets				8.51	8.47
Leverage Ratio.				5.11	4.86

Note 1 : The amount of the Company's own capital, weighted risk assets and total risk insurance shall be calculated in accordance with the "Bank Capital Adequacy and Capital Level Management Measures" and "Description and Table of Calculation Methods for Bank-owned Capital and Risky Assets" .

Note 2 : The annual statement should be filled with the capital adequacy ratio for the current period and the previous period. Except for the current period and the previous period, the semi-annual financial statements should increase the capital adequacy ratio at the end of the previous year.

Note 3 : The following calculation formula should be listed in this period:

(1)Equity capital=Common stock equity+Other tier 1 capital+Tier 2 capital

(2)Risk-weighted assets=Credit risk-weighted assets+(Operational Risk+Market Risk)Capital accrualx12.5 °

(3)Capital adequacy ratio=Equity capital/ Risk-weighted assets

(4)Ratio of common stock equity to risk assets=Common stock equity / Risk-weighted assets

(5)Ratio of Tier 1 capital to risk assets= (Common stock equity+Other tier 1 capital) / Risk-weighted assets

(6)Leverage Ratio = tier 1 capital / total exposure.



12.6 Profitability

Unit: %

		For the year ended December 31	
Items		2018	2017
Return on assets	Before income tax	0.18	0.19
	After income tax	0.18	0.17
Return on equity	Before income tax	3.41	3.74
	After income tax	3.35	3.39
Net profit margin		13.70	13.74

Explanation: 1. Return on assets = Income before (after) income tax / average total assets.
 2. Return on equity = Income before (after) income tax / average net worth
 3. Net profit margin = net income (loss) after income tax / net operating revenue
 4. Income before (after) income tax refers to the amount of income for the period from 1 January to the current quarter.

12.7 Others

The balance of loan to Ching Fu Shipbuilding Co., Ltd. and its subsidiaries (hereinafter referred to as “the Group”) amounted to NT \$1,204 million as of December 31, 2017 (with a principal of \$1,190 million and other \$14 million) due to the debt of the Group turned overdue accounts since January 2018 under law. To hold down the NPL rate, the Company disposed of bad debts amounting to \$763 million (including principal and other) at the end of December 31, 2018.

13.SUPPLEMENTARY DISCLOSURES

13.1 Information on significant transactions

- (1) Cumulative purchase or sale of shares in the same investee company in excess of \$300 million or 10% of paid-in capital : None.
- (2) Acquisition of real estate in excess of \$300 million or 10% of paid-in capital : None.
- (3) Disposal of real estate in excess of \$300 million or 10% of paid-in capital: None.
- (4) Allowance for service fees to related parties in excess of \$5 million: None.
- (5) Receivables from related parties in excess of \$300 million or 10% of the paid-in capital: Appendix 1.
- (6) Information on sale of non-performing loans: None.
- (7) Type of and other relevant information on securitization instruments approved for issuance in accordance with the securitization rules governing financial assets and real estate : None.
- (8) Other significant transactions sufficient to influence the decisions of financial statement users: None.

13.2 Information on investee companies and total shareholding in investee companies: Appendix 2

13.3 Investments in Mainland China: None.

Appendix 1

BANK OF KAOHSIUNG CO., LTD.

Statement of Receivables from Related Parties in Excess of \$300 Million or 10% of Paid-in Capital

December 31, 2018

Unit: NT\$ Thousand

Company in which accounts receivables are recognised	Counterparty	Relationship	Balance of Receivables from Related Parties	Turnover Rate	Overdue Receivables from Related Parties		Amount of receivables from related parties subsequently collected	Allowance for Doubtful accounts
					Amount	Handling Method		
Bank of Kaohsiung, Ltd.	Kaohsiung City Government	Major shareholder of the Company	22,464,937	Not applicable to financial institutions	None	Not applicable	As of March 21, 2019, \$2,101,714 thousand were collected.	—

Appendix 2

BANK OF KAOHSIUNG CO., LTD.

Information on the investees

December 31, 2018

Unit: NTD in thousands

Invested company name	Area	Main business	Percentage of ownership	Carrying value	Investment gains and losses (Note 3)	Shareholdings of the Company and related enterprises (Note 1)			Note
						Current number of shares	Proposed shareholding (Note 2)	Total Number of shareholding ratio	
<u>Financial related business</u>									
Taiwan Finance Corporation	Taipei City	Ticket financing business	10.00%	463,516	28,905	51,617	—	51,617	Financial asset at FVTOCI
Waterland Securities Co., Ltd.	Taipei City	Securities business	4.94%	302,876	16,277	37,026	—	37,026	Financial asset at FVTOCI
Financial Information Service co., Ltd	Taipei City	Information service	1.17%	165,156	15,735	6,117	—	6,117	Financial asset at FVTOCI
Taiwan Asset Management Corporation	Taipei City	Asset management	0.57%	65,580	4,854	6,000	—	6,000	Financial asset at FVTOCI
Taiwan Futures Exchange	Taipei City	Futures trading	0.30%	50,454	3,451	1,002	—	1,002	Financial asset at FVTOCI
Taiwan Financial Asset Service Corporation	Taipei City	Financial asset service	2.94%	42,900	350	5,000	—	5,000	Financial asset at FVTOCI
Ipss Corporation	Kaohsiung City	Electronic ticketing industry	3.51%	34,720	—	4,000	—	4,000	Financial asset at FVTOCI
Taipei Foreign Exchange Market Development Foundation	Taipei City	Forex broker	3.53%	24,906	3,150	700	—	700	Financial asset at FVTOCI
Taiwan Depository & Clearing Corporation	Taipei City	Custody settlement	0.08%	15,375	974	307	—	307	Financial asset at FVTOCI
Taiwan Mobile Pay. Co., Ltd.	Taipei City	Information service	0.50%	2,145	—	300	—	300	Financial asset at FVTOCI
Sunshine Assets Management Co., Ltd.	Taipei City	Asset management	0.01%	3	—	0,347	—	0,347	Financial asset at FVTOCI
Non-financial related business									
Kaohsiung Rapid Transit Corporation	Kaohsiung City	MRT system	0.23%	6,180	39	643	—	643	Financial asset at FVTOCI

Note 1: All existing or proposed shares held by the Company, the directors, the supervisors, the general manager, the deputy general manager and the related companies that are in compliance with the definition of the Company Law shall be included in the shares.

Note 2: (1) The proposed shareholding refers to the purchase of equity-type securities or the derivative goods contract (which has not yet been converted into equity holders), and is linked to the investment business according to the agreed trading conditions and the bank's intention to invest. The equity is also transferred to the investment purpose of Article 74 of this Law, and the shares acquired as a result of the conversion under the assumption of conversion.

(2) The former disclosure of "equity securities with equity" refers to securities of the first paragraph of Article 11 of the Securities and Exchange Act, such as convertible corporate bonds and warrants

(3) The "derivative commodity contract" mentioned above refers to those who meet the definition of derivative instruments in International Financial Reporting Standard No. 9, such as stock options.

Note 3: Investment gains and losses recognized in the current period refer to cash dividend income.

14.SEGMENT INFORMATION

14.1 General Information:

The reportable segments of the Company is strategics business units that provide different products and services and are capable of generating revenues and incurring expenses. Due to the fact that each strategic enterprise unit require different technology and marketing strategies, the decision-makers of the Company separately manages and monitors the operating results of the respective enterprise units in order to make decisions on resource allocation and performance reviews. The reportable segments are as follows:

- (1) DBU, which primarily engages in deposit taking and underwriting of loans in the domestic market.
- (2) OBU& Financial Markets Department, which primarily engages in the investment and trading of securities and offshore deposits and loans.
- (3) Other segments, which primarily engages in public treasury, trust, foreign exchange, life insurance and property insurance businesses.

14.2 Measurement of Segment Information:

The Company decision makers separately monitor the operating results of the respective operating segments to make decisions on resource allocation and performance reviews. Segment performance is evaluated on the operating income or loss derived by the segment concerned. Such operating income or loss is measured by methods consistent with those adopted for the income and expense items in the financial statements.

14.3 Financial Information by Segment

2018 :

	DBU	OBU& Financial Markets Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	\$3,328,266	\$1,819,164	\$368,875	\$ —	\$5,516,305
Interest and service fee income from internal segments	1,120,103	—	10	(1,120,113)	—
Interest and service fee paid to external customers	(1,857,982)	(349,602)	(173,418)	—	(2,381,002)
Interest and service fee paid to internal segments	(10)	(1,111,924)	(8,179)	1,120,113	—
Other net revenue	35,599	313,362	15,356		364,317
Net revenue	\$2,625,976	\$671,000	\$202,644	\$ —	\$3,499,620
Bad debt expense	(536,467)	(181,510)	—	—	(717,977)
Operating expenses	(2,081,552)	(83,201)	(128,758)	—	(2,293,511)
Segment profit or loss	\$7,957	\$406,289	\$73,886	\$ —	\$488,132
Assets					
Capital expenditure on noncurrent assets	\$51,485	\$ —	\$ —	\$ —	\$51,485
Segment assets	\$156,350,590	\$91,697,633	\$19,691,999	\$258,879	\$267,999,101
Segment liabilities	\$143,377,133	\$90,488,194	\$19,688,762	\$ —	\$253,554,089

- (1) Inter-segment revenues and expenses were eliminated.
- (2) Segment profit (loss) excluded income tax expense amounting to \$8,529 thousand.
- (3) Segment assets excluded deferred income tax assets amounting to \$258,879 thousand.

2017 :

	DBU	OBU & Finance Administration Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	\$3,253,108	\$1,322,904	\$324,379	\$ —	\$4,900,391
Interest and service fee income from internal segments	937,943	—	440	(938,383)	—
Interest and service fees paid to external customers	(1,573,821)	(237,955)	(96,380)	—	(1,908,156)
Interest and service fees paid to internal segments	(440)	(830,945)	(106,884)	938,269	—
Other net revenue	44,778	223,842	31,501	—	300,121
Net revenue	\$2,661,568	\$477,846	\$153,056	(\$114)	\$3,292,356
Bad debt expense	(563,291)	(26,963)	—	—	(590,254)
Operating expenses	(2,043,709)	(68,297)	(91,474)	114	(2,203,366)
Segment profit or loss	\$54,568	\$382,586	\$61,582	\$ —	\$498,736
Assets					
Capital expenditure on non-current assets	\$187,996	\$ —	\$ —	\$ —	\$187,996
Segment assets	\$162,085,536	\$88,897,244	\$12,166,387	\$215,018	\$263,364,185
Segment liabilities	\$149,340,476	\$87,699,287	\$12,137,376	\$ —	\$249,177,139

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

(2) Segment profit (loss) excluded income tax expense amounting to \$46,320 thousand.

(3) Segment assets excluded deferred income tax assets amounting to \$215,018 thousand

14.4 Information by product type:

The company has classified the operation department based on the business division, so it will not disclose the business information separately.

14.5 Information by geographic location:

1. Revenue from external customers (classified on the basis of the country where the customer is located)

Unit:NTD Thousand

Country	For the year ended December 31	
	2018	2017
Taiwan	\$4,119,129	\$3,943,266
America	53,318	74,206
Australia	71,152	54,153
United Arab Emirates	34,516	13
Cayman	100,853	40,270
Virgin Islands	129,648	83,537
Other	1,007,689	704,946
Total	\$5,516,305	\$4,900,391

2. Non-current assets

Country	For the year ended December 31	
	2018	2017
Taiwan	\$3,123,225	\$3,212,801

14.6 Information on major client:

Client	For the year ended December 31	
	2018	2017
Kaohsiung City Government	\$127,393	\$129,191

6.5 Audited Individual Financial Statements for FY 2018: None.

6.6 Financial Difficulties that Occurred to the Bank of Kaohsiung and the Related Parties for FY 2018 & up to Mar. 2019: None.



7.1 Analysis of Financial Status

Unit : NT\$ Million

Items	FY	Dec. 31, 2018	Dec. 31, 2017	Increase (decrease) Amount	Increase (decrease) Rate (%)
Cash and cash equivalents, Due from the CBC and call loans to banks		15,803	17,432	(1,629)	(9.34)
Financial assets at fair value through profit or loss		384	1,277	(893)	(Note1) (69.93)
Financial assets at fair value through other comprehensive income		18,366	0	18,366	(Note1) —
Investments in debt instruments at amortized cost		41,342	0	41,342	(Note1) —
Securities purchased under resell agreements		5,243	9,225	(3,982)	(Note2) (43.17)
Receivable, net		2,174	1,152	1,022	(Note3) 88.72
Current income tax assets		19	48	(29)	(60.42)
Discounts and loans, net		181,244	175,860	5,384	(Note4) 3.06
Available-for-sale financial assets, net		0	53,841	(53,841)	(Note1) (100.00)
Other financial assets, net		41	1,102	(1,061)	(Note1) (96.28)
Properties and equipment, net		2,888	2,940	(52)	(1.77)
Intangible assets, net		119	121	(2)	(1.65)
Deferred income tax assets		259	215	44	20.47
Other assets, net		117	151	(34)	(22.52)
Total assets		267,999	263,364	4,635	1.76
Due to the central bank and other banks		8,695	5,923	2,772	(Note5) 46.80
Financial liabilities at fair value through profit or loss		200	1	199	(Note6) 19,900.00
Securities sold under repurchase agreements		10,431	5,367	5,064	(Note7) 94.35
Payables		4,106	3,660	446	12.19
Current income tax liabilities		0	10	(10)	(100.00)
Deposits and remittances		223,286	229,749	(6,463)	(Note8) (2.81)
Bonds payables		6,300	4,000	2,300	(Note9) 57.50
Other financial liabilities		0	1	(1)	(100.00)
Provisions		433	367	66	17.98
Other liabilities		103	99	4	4.04
Total Liabilities		253,554	249,177	4,377	1.76
Equity					
Common stock		10,403	10,032	371	3.70
Capital surplus		1,487	1,658	(171)	(10.31)
Total Retained Earnings		2,506	2,442	64	2.62
Other Equity interest		49	55	(6)	(10.91)
Total Equity		14,445	14,187	258	1.82

Note: In 2018 is the individual financial report, and 2017 is the consolidated financial report. The analysis of the increase and decrease is as follows:

1. In 2017, IAS 39 was classified as “measured by fair value through profit and loss”, “sale for sale” and other financial assets, such as “measured by cost”. The related accounting items of IFRS9 were added in 2018. The financial assets such as “Financial assets at fair value through profit or loss” and “Financial assets at fair value through other comprehensive income” and “Investments in debt instruments at amortized cost”.
2. Mainly to reduce the investment of low-yield coupons and bonds.
3. Mainly due to the increase in interest receivable and receivables for receivable securities.
4. Mainly due to the increase in medium-term lending.
5. Mainly due to the increase in interbank placements.
6. Mainly due to the increase in foreign exchange.
7. Mainly to increase the purchase of bonds (foreign government bonds, foreign corporate bonds and foreign financial bonds).
8. Mainly due to the reduction of time deposits.
9. Mainly to increase the issuance of financial bonds in 2018.

7.2 Analysis of Financial Results

Unit : NT\$ Million

Items	FY	Jan. 1~Dec. 31, 2018	Jan. 1~Dec. 31, 2017	Increase (decrease) Amount	Increase (decrease) Rate (%)
Interest income		4,962	4,389	573	(Note1) 13.06
Less: interest expense		(2,330)	(1,854)	476	(Note2) 25.67
Net interest income		2,632	2,535	97	3.83
Net revenues other than interest		868	757	111	14.66
Total net revenues		3,500	3,292	208	6.32
Bad-debt expenses and provision for losses on commitments and guarantees		(718)	(590)	128	(Note3) 21.70
Operating expenses		(2,294)	(2,203)	91	4.13
Income before income tax		488	499	(11)	(2.20)
Income tax benefit (expense)		(8)	(47)	(39)	(82.98)
Net income for the period — operating department		480	452	28	6.19
Net income for the period — non-operating department		0	0	0	—
Net income for the period		480	452	28	6.19
Other comprehensive income, net of tax		(259)	72	(331)	(Note4) (459.72)
Total comprehensive income for the period		221	524	(303)	(Note4) (57.82)
Earnings per share (dollars)		0.46	0.45	0.01	2.22

Note: In 2018 is the individual financial report, and 2017 is the consolidated financial report. The analysis of the increase and decrease is as follows:

1. Mainly due to the increase in interest income from discount and lending and investment securities.
2. Mainly due to the increase in interest charges on deposits and buy-back securities.
3. The main reason is to strengthen the financial structure. In 2018, the increase in allowances for bad debts will result in the deposit of “debt and expense guarantees”, which is higher than that in 2017.
4. The assessment of losses by equity instruments measured at fair value through other comprehensive gains and losses and the increase in impairment losses of debt instruments measured at fair value through other comprehensive gains and losses.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Past Two Years

Unit : %

Items	FY	2018	2017	Increase (decrease) Rate(%)
Cash flow ratio (%)		Note1	54.83	—
Cash flow adequacy ratio (%)		Note2	Note2	—
Cash flow satisfied ratio (%)		Note1	5,194.97	—

Note : 1. The cash flow from operation in 2018 was net outflow.

2. The cash flow from operation in the last 5 years was net outflow.



7.3.2 Next Year Cash Flow Analysis

Unit : NT\$ Million

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow (Used) by Operating Activities (2)	Estimated Cash Outflow (3)	Cash Surplus (Deficit) (1) + (2) - (3)	Leverage of Cash Deficit	
				Investment Plans	Financing Plans
14,979	(2,393)	(446)	12,140	—	—

Note : 1. Analysis of changes in cash flow estimates next year:

(1) Operating activities: Due to the increases in loan and bond investment

(2) Investing and financing activities: Estimated acquisition of equipment and intangible assets and the issuance of cash dividends.

2. Correction action for deficit in cash and liquidity analyses:

(1) Investing plans: None.

(2) Financing plans: None.

7.4 The Impact of Major Capital Expenditures on Financial Operations in FY 2018: None.

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plan for the Coming Year.

7.5.1 Investment policy for 2018 and investment plans for the next year:

In 2018, 179,123 shares of Investment Financial Information Service Co., Ltd. were added. In the future, the Bank will continue to observe and understand the market development trend. We will continue to observe and understand the market development trend. We will conduct investment transfer within the scope permitted by the Act after we have carefully assessed the cost-effectiveness of our business and overall industry development needs.

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

Unit : NT\$ Million

FY	Amount of profit	Source of profit
2018	75	Cash dividends and directors' compensation.
2017	129 (Note1)	Recognition of investment gains and losses, disposal of interests, cash dividends and directors' compensation.

Note : 1. The investment income of the two subsidiaries including "Kaohsiung Bank General Insurance Agency Co., Ltd." and "Kaohsiung Bank Insurance Agency Co., Ltd." was NT\$36 million.

2. On Jan. 23, 2108, the "Insurance Agency Dept." was established to merge and replace two subsidiaries.

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

7.6 Analysis & Evaluation of Risk Management

7.6.1 Qualitative and Quantitative Information of the Various Risks

I . Credit risks management system and capital charge.

(i) Credit risks management system:

FY 2018

Items	Contents
1. Credit risks strategy, target, policy and flow.	■ Strategy The Bank adopts stable credit extension strategies, adjust local finance, help public works, boost industrial and commercial development, strengthen financing to small- and medium-size enterprises, upgrade credit extension quality and achieve the Bank's purpose and business objectives. To increase the profit margin and take risk into account, business strategies should be included in annual operational plans (Ex. increase guarantee fund guarantee credit extension transferred by small-and medium-size enterprises and loans to city governments), and adjusts its loan portfolio from time to time in response to future political and economic developments. ■ Target The Bank's credit risk management objective is to establish the credit risk management mechanism recognized and complied with throughout the Bank, to identify, measure and control the credit risk to be borne by the Bank, ensure that the Bank's credit risk is maintained within the tolerable extent, maintain the balance between the credit risk and remuneration borne by the Bank and keep the adequate credit risk capital to manage the Bank's credit risk stably. ■ Policy In order to fulfill the Bank's credit risk management strategies, the Bank defines the following relevant credit risk management policies and regulations: ◆ Investigation/credit extension procedure: Stipulate the procedure to standardize the review procedure for credit extension applications, strengthen the internal management and upgrade the service efficiency. ◆ Approving authority: Stipulate the approving authority for credit extension cases, and provide the relevant licensing standards and approving procedure with respect to the change of credit extension terms to achieve the divisional responsibility and shorten the credit extension procedure. ◆ Limit of credit extension: Sets the limit of credit extension and combined credit limit with respect to counterparts, industries, territories and nations, and plans and controls the credit extension portfolio in a timely manner lower credit extension risk. ◆ Risk pricing: Determine cost of risk that corresponds to internal rating of customers, and put into pricing of products. ◆ Post-loan management and risk control: The follow-up and appraisal case by case upon granting the loans, so that it might take appropriate steps to protect the credit right, if necessary. • Audit on loans: Audit on the compliance with review procedure and laws and regulations about credit investigation procedure for loaning. • Reexamine credit extension: The credit extension and reexamination are handled by different persons. According to the extent of risk exposure, periodic and irregular reexamination on credit extension shall be conducted in writing or in the form of on-site survey, to verify whether the credit extension customers may utilize the loan truly in accordance with the original plan and perform the contract and other agreements. Additionally, the branch's location, international economic condition and change in local political and economic condition are also the reference for frequency of the recheck. • Control of credit extension quality: The Bank's business supervising entities supervise and control business entities, overestimated extension credit. ◆ NPL management: Apart from stringent collection procedures and allowances for overdue loans pursuant to the competent authority's laws and regulations, in order to accelerate clearing NPL, the Bank also defines the guidelines governing the sale of NPL.



Items	Contents
	◆ Accounting management: The credit extension accounting and archive are handled by the dedicated persons, and the procedure for documentation and archive is defined. ■ Flow - The Bank's credit risk management procedures are categorized as identification, measurement, communication and control: ◆ Identification : - Source of credit risk, including borrowers' default risk, deterioration of credit rating, collateral devaluation, the defaults of financial derivative issuers or counterparties etc. The identification of credit risk must also account for internal operations and changes in the external environment when determining proper risk factors. - The Bank's credit risk management procedures require that each business entity should verify the credit risk involved therein before underwriting any business, and also identify the possibility of breach in the process of credit extension, investment or transaction. ◆ Measurement : - Depending on the trading counterpart, purpose of capital, source of repayment, protection of credit right and prospect of borrowers, the Bank collects credit information and evaluates the credit extension applications. Also, the Bank establishes an internal rating system to properly assess and monitor customers' credit risks. Major factors of credit assessment include: internal ratings, external ratings, loss given default, the exposure, the likelihood of asset impairment, the statutory capital etc. ◆ Communication : - Risk management units report regularly to senior executives all information relating to credit risk management. This information is also communicated to the board of directors and disclosed to the public on a regular basis. ◆ Monitor and Controlling : - The scope of credit risk management covers credit risks arising from all on-balance sheets as well as off-balance sheet items. Through information systems, the Bank monitors and manages various limits imposed on credit assets to ensure that credit asset composition, concentration, and large exposures are within manageable levels. - The credit risk monitoring mechanism of the Bank includes credit risk management, concentration and limit management, collateral value assessment, asset quality management, post-lending management, exceptional loan management, and investment risk management.
2. Credit risks management organization and structure.	The Bank's credit risk management organization and structure as following: ◆ Board of Directors: authorize the important credit risk policies according to the entire operating strategies and business environment to ensure the effective operation of credit risk management, which is the supreme policy-making entity of the Bank's credit risk management. ◆ Asset and liability and risk management committee: Drafting and reviewing financial improvement plans and management matters related to asset and liability and risk management matter, such as the review of capital adequacy ratio, capital increase, issue of financial bonds. ◆ Credit Evaluation Committee: responsible for evaluating credit applications that require levels of approval authority higher (inclusive) than Deputy General Managers. ◆ Investment Evaluation Committee: responsible for evaluating the investment in securities. ◆ Risk Management Dept.: responsible for integrating the Bank's credit risk management operation, executing the credit risk management monitoring for the entire bank, summarizing the Bank's credit risk management information and reporting it to the Asset and Liability and Risk Management Committee and the Board of Directors periodically, and handling the credit risk capital charge and disclosure of information pursuant to the competent authority's requirements. ◆ Business Supervising Entities: Executing the credit risk policies approved by the Board, being responsible for the credit risk control of the operation it is in charge of, knowing the credit risk of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. to complete the control of the Bank's credit risk.

Items	Contents
	◆ Business Entities: Comply with the Bank's credit investigation, credit extension and credit risk management requirements to engage in the routines for credit risk management, confirm the accuracy and sufficiency of the information, and report to the various business supervising entities or Risk Management Division pursuant to the requirements.
3. Report of credit risks, scope and features of measuring system.	(1) E-Loan System The establishment of the E-Loan system started in connection with credit information system provided by the Joint Credit Information Center, the check inquiry system of Taiwan Clearing House, and land administration database. Since E-Loan performs analyses based on borrowers' historical risk factors stored in system database, the system make it possible to manage credit risks using statistical management. (2) Internal Rating System The Corporate Banking segment adopted an expert model scorecard for credit rating, while the Consumer Banking segment adopted a personal credit rating scorecard. These scorecards were developed by the Credit Assessment Department of the Bank's Credit Administration Division based on fundamental credit theories, and historical experience characteristics of the financial status of borrowers, operation management, as well as industry characteristics and outlooks are also taken into consideration for a complete credit assessment and effective segregation of customers' risk grades. (3) External Rating System The Taiwan Corporate Risk Index (TCRI) published by Taiwan Economic Journal (TEJ) is used to evaluate the credit risks of companies listed on Taiwan Stock Exchange, GreTai Securities Market, Emerging Stock Market, and other stock exchanges. (4) Management of Concentration risk The Bank regularly and irregularly monitors credit risk exposures through various perspectives based on risk management reports. Caps were imposed to ensure close monitoring of concentration risk. Risk orientations of regular monitoring include: National risks, corporate loan credit rating distributions, large amount credits, industry types, bank law suitability ratio, real estate secured loan area distribution, same borrower, same affiliate enterprise and group enterprise, etc. (5) Stress Testing A. The Bank set the "Minor" and "Severe" pressure scenario based on the overall economic environment (e.g. economic growth rate, unemployment rate and house price), corporate banking (operating revenue of public non-electronic/electronic manufacturers/service suppliers, and operating revenue of non-public non-electronic/electronic manufacturers/service suppliers), and consumer banking (e.g. collateral for real estate in various districts, house price in various districts, revenue of military, government officer and teacher, and revenue of advantaged/general/disadvantaged groups in the market). B. Structure the risk based on the loans to sale ratio, full security ratio, CLTV and DBR. C. The expected loan, credit derivative products and investment loss is estimated by multiplying by PD provided by JCIC and LGD and EAD of the Bank ($PD \times LGD \times EAD$) to complete the pressure test and evaluate the Bank's ability to tolerate loss. Risk Management Division will conduct a pressure test each year, and submit the pressure test report to Board of Directors for approval, and then to FSC. Monthly credit risk monitoring results reported Assets and Liabilities and Risk Management Committee. The credit risk monitoring quarterly results reported Assets and Liabilities and Risk Management Committee and the Board of Directors.
4. Credit risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	(1) Collateral Management The Bank has established policies and limits relating to the categories and quantities of collaterals, and the exposures they are permitted to secure. These collaterals are revalued through proper procedures and are inspected on a regular or irregular basis. In addition, the Bank performs due diligence assessments on the coverage and legality of guarantees provided by guarantor over debt entitlements to ensure the effectiveness of credit guarantees, which also forms part of a credit decision. (2) Post-Lending Management The Bank conducts regular credit reviews on approved credit cases. Customers of different risk grades are subject to varying extents and frequencies of reviews and limit caps. These regular reviews facilitate the Bank's apprehension and response over changes in customers' risks.



Items	Contents
	(3) External Credit Guarantees Lending to small and medium enterprises with weaker credit quality or insufficient collateral may be enhanced through the guarantees of the “Small and Medium Enterprise Credit Guarantee Fund”. According to The Banking Law, credit guarantee institutions approved by the government may provide guarantees for the benefit of Bank. (4) Credit risk Audit Policy The internal audit unit performs regular audits over the progress and process of credit product initiation, credit policy establishment, credit assessments, debt management etc to properly monitor credit risk.
5. Method adopted for providing statutory capital.	The Standardized Approach.

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

March 31, 2019

Unit : NT\$ Million

Items	Exposure after Risk Mitigation	Capital Charge
Sovereign country	44,197	21
Non-central government public sector	21,191	339
Banks (including multi-development banks)	19,084	547
Enterprise (including securities and insurance)	92,741	7,093
Retail exposure	46,331	2,815
Real estate for residential	28,161	1,470
Equity securities investments	6	1
Other assets	5,964	326
Total	257,675	12,611

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

(i) Securitization risk management system:

FY 2018

Items	Contents
1. Asset securitization risk management strategy and flow.	The Bank only engages in the investing activities with respect to asset securitization products, and never played the role of founding bank, service organization, credit enhancement organization or liquidity financing provider. The investment policies and management procedure with respect to asset securitization products shall be managed in accordance with the Bank’s rules for management of marketable securities.

Items	Contents
2. Asset securitization risk organization and structure.	The Bank executes control and reports on the credit risks, operational risks, market risks, interest rate risks, and liquidity risks that could be generated from investment activities in securitized instruments pursuant to the management organization and structure stated in the “Risk Management Policies and Procedures” of The Bank.
3. Asset securitization risk scope and features of managing report, measuring system.	The Bank regularly performs risk evaluations on securitized instruments and reports them to high-ranking supervisors.
4. Asset securitization risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	The Bank never played the role of the originator bank or liquidity financing provider and, therefore, has not yet developed any policies related to the asset securitization hedging or risk reduction. If the Bank wishes to engage in said business, it is necessary to define the relevant management policies first.
5. Methods adopted to legal capital charge.	The Standardized Approach.
6. General qualitative disclosure requirements, comprising: (1) The purpose of engaging in asset securitization activities, and banks engaged in re-securitization activities and risks borne by the type reserved. (2) Other assets securitized risks (eg liquidity risk) inherent. (3) Asset securitization process, banks play a variety of roles, and the degree of participation of banks in each process. (4) Describe changes in the credit and market risk of securitization exposures involved in the monitoring process adopted. (5) The Bank at risk securitization and re-securitization of credits reserved, the use of credit risk.	None.
7. Summary of bank securitization accounting policies.	None.
8. In the banking book, the securitization used external rating agency (ECAI) name, and its use in the case of securitization exposures for each class.	None.
9. Interpretation (such as asset moves in the inter-bank book and the trading book) any material changes since the last reporting period of quantitative information.	None.

Note : Items 6 to 9 are only required to be filled out by the founding bank that is currently in circulation.

(ii) Securitization: None.

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



III. Operational Risks Management System and Capital Charge

(i) Operational risks management system:

FY 2018

Item	Contents
1. Operational risks management strategy and flow.	■ Strategy Through the establishment of an operational risk management system, the Bank seeks to quantify and formalize operational risk management as part of sound corporate governance. The Bank monitors operational risks of its various business activities through proper risk management policies, procedures, and tools in an attempt to minimize potential losses, strengthen our business foundation, and increase shareholders' equity. ■ Flow Through operational risk data collection, key risk indicators system (KRI) and operational risk control self-assessments (RCSA), the Banks seeks to enhance operational risk identification, measurement, communication and control to reduce operational risk, and deliver higher service quality. ◆ Identity : Business units are responsible of identifying, assessing, and reporting the potential risks within the Bank's operating procedures. If the evaluation result shows a high-risk level, it is necessary to explore the root cause and propose "correction action", and propose countermeasure against the loss of specific amount to prevent, control or reduce the operational risk. ◆ Measure : Ensure systematic collection of loss events data, key risk indicators system, risk control self-assessments, establishment of a loss database, collection of key indicator data, and risk assessment of core businesses to facilitate effective documentation, evaluation, analysis, and management of operational risks. ◆ Communication : In the occurrence of an operational risk event, the unit where the event has occurred must report promptly the area of responsibility and the nature of event through proper procedures. The risk management unit consolidates operational risk management information regularly from various sources and compiles operational risk analysis reports. ◆ Monitor and Controlling : Gain an understanding of operational risk exposures through analyses of quarterly loss statistics; produce regular operational risk reports for each business unit to supervise rectification within their areas of responsibility, and to strengthen the Bank's business foundation.
2. Operational risks management organization and structure.	The Bank's operating risk management organization and structure as following: ◆ Board of Directors: authorize the important Operational risks policies according to the entire operating strategies and business environment to ensure the effective operation of credit risk management, which is the supreme policy-making entity of the Bank's credit risk management. ◆ Asset and liability and risk management committee: Drafting and reviewing financial improvement plans and management matters related to asset and liability and risk management matter, such as the review of capital adequacy ratio, capital increase, issue of financial bonds. ◆ Business R&D Taskforce: responsible for the renovation projects, research and suggestions of the Bank's businesses. ◆ Risk Management Dept.: responsible for integrating the Bank's operational risks, summarizing the Bank's operational risks management information and reporting it to Board of Directors periodically, and handling the operational risks capital charge and disclosure of information pursuant to the competent authority's requirements. ◆ Business Supervising Entities: know the operational risks of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. complete the control of the Bank's Operational risks. ◆ Business Entities: comply with the relevant operational guidelines and internal control regulations to engage in the routines for operating risk management, confirm the accuracy and sufficiency of the information, and report to the various business supervising entities or Risk Management Dept. pursuant to the requirements.

Item	Contents
3. Operational risks scope and features of managing report, measuring system.	The Bank incorporates the three functions of “Collection of loss data”, “key risk indicators system”, and “operational risk control self-assessments” to enhance operational risk management. (1) Loss Data Collection(LDC) The Bank uses the system to gather loss incidents and classifies them according to eight major business categories and seven major loss incident types. The Bank assesses the impact of the incident, amount of loss, the expense involved, the amount of recovery, and the net loss, as the basis for improvement. (2) Key Risk Indicator (KRI) The system captures major indicators across 5 areas (internal operations, personnel, system, external events, and overall) at various frequencies of observation (monthly, quarterly, semi-annually, and annually) and analyzes operational risks by monitoring statistical changes through time. (3) Risk Control Self-Assessment (RCSA) Evaluating past experience through the RCSA system used by all units, the Bank's core business units, including deposits, credit, foreign exchange, financial management, financial market operations, international finance, wealth management, trusts, insurance agents, accounting, information, public accounts and trusts, legal compliance and credit cards ect. perform self-assessments at each risk control point based on practical experience, with specific emphasis on “frequency of occurrence” and “magnitude of impact (including financial and non-financial losses).” The information system automatically calculates risk scores and assigns high, medium, and low level monitoring according to the risk matrix. If the result of the evaluation is in the high-risk category, the Bank should investigate the reason of the risk, propose an improvement plan, and prevent operational risk losses. In the occurrence of an operational risk event, the unit where the event has occurred must report promptly the area of responsibility and the nature of event through proper procedures to each management personnel. The risk management unit analyzes and compiles data reported by business units, operational risk events collected by the loss event database, key risk statistics from the key risk indicators system, and self-assessment results and reports to senior executives. These reports will be disseminated to the relevant business unit supervisors and provide the basis for future rectification. Monthly credit risk monitoring results reported Assets and Liabilities and Risk Management Committee. The credit risk monitoring quarterly results reported Assets and Liabilities and Risk Management Committee and the Board of Directors.
4. Operational risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	■ Categorize operational risk according to business procedures. Identify the main factors of risk formation through risk descriptions. ■ Assess risks based on “frequency of occurrence” and “magnitude of impact (including financial and non-financial losses)” and impose control measures to manage risk. ■ Assess risks on a regular basis. Appropriate measures must be taken and the Board of Directors must be informed immediately upon the discovery of major exposures capable of jeopardizing the Bank's financial position, business operations, or regulatory compliance. ■ Mitigate risks against proper uses of insurance instruments. Establish emergency responsive tactics to ensure business continuity in the occurrence of extraordinary events.
5. Methods adopted to legal capital charge.	Basic indicator approach.

(ii) Operational Risks Capital Charge

Unit : NT\$ Million

FY	Gross Income	Capital Charge
2018	3,359	
2017	3,217	
2016	3,256	
Total	9,832	492



IV. Market Risks Management System and Capital Charge

(i) Market risks management system:

FY 2018

Items	Contents
1. Market risks management strategy and flow	■ Strategy Adhering to the trading strategies of safety, liquidity, profitability and dispersion of risk, the Bank establishes the market risk management mechanism recognized and complied with throughout the Bank, to identify, measure and control the market risk to be borne by the Bank, and keep the adequate market risk capital to manage the Bank's market risk stably. ■ Flow ◆ Identify : Market risks of financial products and trading activities involved in every business must be comprehended prior to initiation. The scope of risk identification covers the positions of interest rate and equity securities in trading books and the positions of foreign exchange and commodities. Risk factors include interest rate, exchange rate, stock price and commodity price. ◆ Measure : The values at risk (VaR), VaR ratios, VaR to net equity ratio, β of equity stocks and funds, unrealized gains/losses of trading book positions, and duration of interest-based instruments including various financial instruments and investment portfolios are assessed regularly according to the basic assumptions and market risk evaluation methods (historical simulation) stipulated by the new Basel Capital Accord and the Financial Supervisory Commission. DVO1 is used to determine changes to gains/losses on interest-based instrument portfolios given a 1bp (0.01%) change in the interest rate. ◆ Communication : The Bank's risk management personnel shall report market risk management information including investment portfolio composition, limit management, exposure, VaR, and unrealized gains/losses etc to management personnel to facilitate decision making. The Risk Management Department collects various market risk management information, holds the investment balance, and evaluates the profit and loss. The "risk assessment report" is prepared and reported to the board of directors after being reviewed and approved by the Asset and Liability Management Committee. ◆ Monitor and Controlling : The Bank's market risk management unit is independent of the trading unit, and reports regularly to the Asset and Liability Risk Management Committee the utilization of market various risk caps. The Bank defines the control mechanism over limit management, and evaluates the income of invested objects and reports it to the management to prevent the excess in limits, and takes the measures to realize the profit, stop loss or reduce exposure depending on any change in the market price.
2. Market risks management organization and structure	The market risks management organization and structure include Board of Directors, Assets & Liabilities and risk Management Committee, Investment Evaluation Committee, Risk Management Dept., and business supervising entities, which are specified as following: ◆ Board of Directors: authorize the important market risks policies according to the entire operating strategies and business environment to ensure the effective operation of credit risk management, which is the supreme policy-making entity of the Bank's credit risk management. ◆ Assets & Liabilities and Risk Management Committee: responsible for utilization of capital in NTD and foreign currencies, capital utilization plans and interest rate sensitivity analysis, strengthening the comprehensive assets & liabilities management, adjusting the operating policies in a timely manner, and seeking stable earnings and growth. ◆ Investment Evaluation Committee: responsible for evaluating the investment in securities. ◆ Risk Management Dept.: To be responsible for the Bank's overall Market risk management operation, summarizing the Bank's market risks management information and reporting it to Board of Directors periodically, and handling the market risks capital charge and disclosure of information pursuant to the competent authority's requirements.

Items	Contents
	◆ Business Supervising Entities: know the market risks of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. complete the control of the Bank's Operational risks.
3. Market risks scope and features of managing report, measuring system	(1) The Bank adopted the statistical model of the VaR evaluation system published by the Taiwan Economic Journal (TEJ), and the Bloomberg system to develop an independent, rational, and accurate risk quantification mechanism. This model is used to evaluate the exposure and VaR of financial instruments and investment portfolios under the trading book. Descriptions are as follows: ■ Calculation of VaR is reference to the assumptions of the New Basel Capital Accord and the Financial Supervisory Commission: ■ 99% one-tail confidence level. ■ One year of historical observations. ■ Holding periods of 10 business days. ■ Risk evaluation methods ■ VaR is evaluated by Historical simulation ■ Sensitivity analysis on risk factors and Trend analysis ■ Quantified assessment coverage ■ VaR. ■ VaR ratio. ■ Average VaR to net equity ratio ■ β of equity stocks and funds. ■ Duration $\times$ DVO1. (2) Pressure test Set the "Minor" and "Severe" pressure scenario for "domestic" and "foreign" equity securities, trading book of interest rate, gold and foreign exchange rate and commodities to evaluate the expected investment loss under minor and severe scenario and evaluate the Bank's ability to tolerate loss. Risk Management Division will conduct a pressure test each year, and submit the pressure test report to Board of Directors for approval, and then to the FSC.
4. Market risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools	◆ Avoid over-exposure by evaluating the rationality of risk-return trade-off, based on historical VaR and VaR ratios, and the average real commodity yield. ◆ In accordance with the Bank's limit and market risk management mechanism and policies, if the market risk exposure is attained and some proper actions need to be taken, the Bank will take the trading strategies to reduce exposure to a manageable level, e.g. sell call option, put option, write-off or swap.
5. Methods adopted to legal capital charge.	The Standardized Approach.

(ii) Market risk capital charge

Unit: NT\$ Million at 2019.3.31

Items	Capital Charge
Interest rate risks	241
Equity exposure risks	82
Foreign exchange risks	10
Product risks	0
Total	333



V. Liquidity Risks

(i) Maturity analysis of assets and liabilities :

A. Analyses of the Structure of the Maturity Date (NT\$) as follows: Please refer to page 164.

B. Analyses of the Structure of the Maturity Date (US\$) as follows: Please refer to page 164.

(ii) Methods to manage the asset liquidity and funds gap liquidity

To help manage interest rate risk and liquidity risk, ensure the ability to pay, maintain financial stability and strengthen the ability to respond to emergencies, BOK enacts the “Guidelines for Interest Rate Risk and Liquidity Risk Management” with respect to NT\$ and major foreign currencies of which the liabilities account for more than 5% of all foreign currency liabilities. Short-term liquidity is monitored on a monthly basis based on the liquidity coverage ratio (LCR). The net stable capital ratio (NSFR) is used to monitor the long-term (more than one year) funding sources to support the extent of long-term capital use.

In order to stabilize long-term profitability and maintain business growth, the Bank adopts a management strategy between active and defensive and defines various management indicators to measure and control NTD cash flow gap of various tenors, required reserve ratio, liquid reserve ratio, loans to deposits ratio, liabilities purchased (issuance of negotiable certificates of deposit) and deposits ratio, to control the various indicators within the required scope at any time, and prepare and submit daily, monthly or quarterly statements to the management for review.

7.6.2 The Impact of International and Domestic Policies, Regulatory Changes on the Bank Financial & Business and the Responsive Measures

Changes	Impact	Responsive Measures
Financial Supervisory Commission Jin Guan Yin Guo Zi No. 10702712280 Amendment to some provisions of the “Implementation Measures for Financial Holding Companies and the Internal Control and Auditing System of the Banking Industry”.	It is stipulated that the banking industry should establish an internal reporting system, and the units designated by the head office to exercise independence should be responsible for the handling and investigation of the cases; the banking industry should set up information security special units and supervisors, and be responsible for the relevant work of the capital security, and The update of the banking industry should strengthen the provisions of information security education and training.	It has been revised to amend the Bank's "Implementation Guidelines for the Implementation of the Enforcement System", the "Code of Practice for Information Business and Security Policy", the "Code of Practice for Corporate Governance" and the new "Measures for Handling Standards for Reporting Cases".
Ministry of Finance Tai Cai Ji Zi No. 10624518960 "Financial Institutions Implement Joint Declaration and Due Diligence Operations". Tai Cai Ji Zi No. 10624519000 Order "Tax Agreement Agreement Tax Use Information Exchange Operation Method".	Financial institutions in China shall be required to conduct due diligence on the exchange of financial account information for tax purposes, and report to the tax collection and collection authority on the tax account financial account information of the occupants of the applicant country.	Has completed the CRS Act operation process import and education training, and has completed the operation of the “New Account” applicable CRS Act and the revision of the deed document form for each business, and the units of the Circular have been activated since January 2, 2019. In order to carry out the new account identification review operation in accordance with the relevant provisions of CRS.

Changes	Impact	Responsive Measures
Financial Supervisory Commission Jin Guan Yin Fa Zi No. No. 10702734370Part of the "Guidelines for the preparation of financial statements of publicly issued banks" and the format of Article 20	A new "Use Rights Asset" and "Lease Liability" items will be added and a list of related accounting items will be added.	The business processing manual - accounting and accounting systems have been revised.
Financial Supervisory Jin Guan Bao Zong Zi No 10704566001Amend the "Implementation Measures for the Internal Control Auditing System and the Soliciting and Handling System of Insurance Agents' Insurance Brokers".	The amendments to the internal control specifications focus on the relevant operations of soliciting or invoking the insurance contract and clarifying the appointment, dismissal or transfer of audit and audit reports of the bank auditors, etc., in accordance with the provisions of the "Finance Holding Company and the Internal Control and Auditing System Implementation System of the Banking Industry" The bank that handles and operates the insurance agent business shall have a statement of the internal control system of its insurance business and the same statement of the internal control system of the banking industry.	It has been revised to revise the Bank's "Guidelines for the Implementation of the Internal Control Auditing System and the Soliciting and Handling System for Insurance Agency Business".
Financial Supervisory Commission Jin Guan Yin Fa Zi No. 10702745220 Order Amend the "Measures for Financial Institutions to Prevent Money Laundering". Financial Supervisory Commission Jin Guan Yin Fa Zi No. 10702745350Amend Article 3 of the "Measures for Financial Institutions to Notice the Interests and Locations of Property or Property Subject to Designated Sanctions".	Financial institutions should establish a system of internal control and auditing of money laundering prevention and control according to the risk of money laundering and risk of terrorism and the scale of business.	It has been revised to revise the Bank's business processing manual.
Financial Supervisory Commission Jin Guan Yin Fa Zi No. 10702147770Amend the "Relationships between domestic bank capital adequacy and risk management information."	The new regulations are disclosed in IFRS9 accounting subjects to improve the correctness and completeness of information.	It has been amended to revise the information disclosed in the statutory public disclosure of the Bank - "Capital Adequacy and Risk Management Zone".



7.6.3 The Impact of Technology Development and Industrial Changes on the Bank Finance & Business and the Responsive Measures.

Changes	Impact	Responsive Measures
The arrival of digital Finance	The Bank also endeavors to offer diversified e-banking services to elevate customer convenience, thereby facilitating the Bank's business development and increasing its competitiveness.	1. Launched the new "High Banking e-Point APP" in 2018 to provide more convenient mobile banking services, provide more types of trading functions, convenient operation interface and architecture, and support diverse mobile devices. 2. Expand the mobile payment service through the FISC Taiwan Pay QR Code platform, and add the Taiwan Pay scan code transfer, tax payment and consumer shopping services to the Mobile Bank App. The payment application scenarios cover food, clothing, housing, transportation and education. In addition, in response to the government's policy of promoting paperless invoices, the company has added the ability to set/present electronic barcode invoices. 3. Cooperate with "JKOPAY" and "Line Pay iPASS" to provide the Bank's customer action payment experience, penetrate its daily consumption habits, and increase customer satisfaction by using the Bank's credit card or deposit account link payment. The adhesion of the bank.

7.6.4 The Impact of Image Change on the Bank and the Responsive Measures.

The Bank shakes off the stiff operation as a state-run bank since the Bank was privatized. The operating policy has been made more flexible and with better assets quality. In response to the severe competition in the economic environment and financial markets, the Bank intend to reinforce operating constitution continuously and to reach another peak in business with a good image and professional operating decision and method..

7.6.5 Expected Benefit, Potential Risk of Future Merger and the Responsive Measures : None.

7.6.6 Expected Benefit and Potential Risk of Expanding Business Locations

We will have business locations set up nationwide to improve our operating effectiveness and generate profits. The risk of damaging the operating constitution due to the setup of new branch offices is also considered.

7.6.7 Risk of Centralized Business Operation

Centralized business faces the challenge of credit risk, market risk, and operational risk. For the sake of reducing the impact of the risks, the risk is to be decentralized through the mechanism of a business station, source of customers, and diversified product lines.

7.6.8 The Impact and Risk of Business Ownership Change on the Bank: None.

7.6.9 The Impact, Risk and countermeasures of whom' equity change on the Bank, Directors, Supervisors, the Shareholder Owns more than 1% of the Bank's Outstanding Shares, there was large transfer or change of equity:

- I . The Impact and Risk of large transfer or change of equity: For many years, our directors, the shareholder owns more than 1% of the bank's outstanding Shares, there was no large transfer or change of equity. Thus, there is no impact on operation or risk on the Bank.
- II . Countermeasures: If there was a transfer, it shall be processed in the manner according to article 25 of "The Banking Act of the Republic of China".

7.6.10 Litigated or Non-Litigated Events

In addition to the following cases and law suits deriving from operation, The Bank has no other law suits or non-contentious cases of significance.

The facts	The amount involved	Date of action	Progress	Remark
The claim for the loss inflicted by the 3 cases of fraud committed by former banking staff of BOK with First Property Insurance on employee honesty insurance was rejected for reason that the incidents were uninsurable. A legal proceeding was instituted against First Property Insurance on the claim.	NT\$36,321,000 in total.	Litigation fee was paid on 2016.08.19 and the proceeding commenced.	1. The part of the employee honesty insurance claim related to the corruption and fraud of former banking staff Huang ○○: The first instance of the Taipei District Court ruled that the Bank won all the cases, the two parties appealed to the outside world, and the First Property and Casualty Co., Ltd. withdrew the appeal. 2. The part of the employee honesty insurance claim related to the corruption and fraud case of former banking staff Tseng ○○ and Chi ○○: The Taipei High Court ruled that the Bank lost the case and has appealed to the lawyer to appeal. It is currently being tried by the Taiwan High Court in the third instance.	Provision for loss deriving from the litigations and cases of fraud have been recognized. The loss will not cause significant damage to the financial position and operation of the Bank.

7.6.11 Other Significant Risks and the Responsive Measures: None.

7.7 Responsive Mechanism for Crisis Management

The Bank has regulations stipulated and executed for business processes in order to minimize daily operational risk. The setup of Credit Screening Committee, Business R&D Workshop, Bad Credit Monitoring Workshop, Assets / Liabilities and Risk Management Committee, Personnel Evaluation Committee, Long-term Stock Investment Panel, Trust Property Evaluation Committee and Emergency Preparedness Operation Team; also, the regulations of “Regulations Governing Trust Risk Management”, “Regulations Governing Risk Management”, “Regulations Governing Investment Policy”, “Regulations Governing Legal and Compliance with Risk Management”, “Regulations for Compliance of Regulations & System Execution and Planning”, “Regulations for Disaster – Prevention and Rescue,” and Manual for emergency coping measures are the responsive mechanisms for risk management.

7.8 Other Significant Events: None.



8.1 Summary of Affiliated Companies: After the Bank's subsidiary Kaohsiung Bank General Insurance Agency Co., Ltd. and Kaohsiung Bank Insurance Agency Co., Ltd. were incorporated into the Bank on Jan. 23, 2018, the Bank has no relationship since Jan. 23, 2018.

8.2 Private Placement Security and Financial Bonds in FY 2018 and Up to Mar. 2019: None.

8.3 The Shares in the BOK Held or Disposed of by Subsidiaries in FY 2018 and Up to Mar. 2019: None.

8.4 Other Supplementary Disclosure: None.

8.5 Pursuant to term 2, Paragraph 3, Article 36 of Security and Exchange Act. the Incidence Exerting Material Influence on Shareholders' Rights or Security Price in FY2018 and Up to Mar. 2019: None.

Guidelines for Ethical Conducts of Bank of Kaohsiung

Article 1

These Guidelines are enacted, for the purpose of compliance, to guide the conducts of directors and managers of the Bank to adhere to ethical standards.

Article 2

The term “managers” in these Guidelines herein refers to the General Manager and the person of the same level, Associate General Manager and the person of the same level, supervisor of the Financial Department, supervisor of the Accounting Department, and other persons with authorities to manage and sign.

Article 3

Directors and managers shall handle business in an objective and efficient manner and shall not obtain unwarranted benefits for themselves, their spouse, parents, children, or relatives within the second degree of kinship due to the position in the Bank.

When the Bank is involved in the situation of fund lending or providing guarantees or major asset transactions with the affiliated companies of aforementioned persons, these persons shall voluntarily explain whether or not there is potential conflict of interests with the Bank.

Article 4

The Bank shall prevent directors or managers from conducting following matters:

1. Having the opportunity to obtain private interests or obtaining private interests through using the Bank’s property or information or their positions;
2. Competing with the Bank.

When the Bank has the opportunity to earn profits, directors or managers are responsible for increasing the legitimate legal benefits that the Bank may obtain.

Article 5

Except for the information that is authorized or stipulated by laws to disclose, directors or managers are under obligation of confidentiality in information of the Bank or the customers of the Bank. The aforementioned information that shall be under confidentiality includes all possible undisclosed information that may cause damages to the Bank or customers after being used by competitors or leaked.

Article 6

Directors or managers shall treat customers of the Bank, competitors and employees equally, and they shall not obtain unwarranted benefits through manipulating, concealing or abusing information obtained from the position, making false representation on critical matters, or conducting unequal transactions.

Article 7

Directors or managers are responsible for protecting the assets of the Bank and ensure they are used efficiently and legally in official business.

Article 8

The Bank shall strengthen the compliance to Securities and Exchange Act and other laws and regulations for directors and managers. When there is a concern of material damage to the Company, Directors shall take action at once and notify all Independent Directors of the Audit Committee and report to the Board, and supervise the Company to report to the competent authority.



Article 9

The Bank shall strengthen the ethical concepts internally, encourage employees to report to independent directors, managers, supervisor of internal audit or other proper personnel when suspecting or discovering conducts violating laws and regulations or these Guidelines, and protect the safety of reporter.

Article 10

When directors or managers violate these Guidelines, the Bank shall perform disciplinary measures pursuant to the Company Act and regulations of the Bank and shall immediately disclose the date of violation, facts of violation and reasons, violation of these Guidelines and disposition on Market Observation Post System.

When being punished for violating these Guidelines, the violator may appeal pursuant to relevant regulations.

Article 11

When it is necessary to exempt directors or manager from following these Guidelines, the exemption shall be approved by the Board of Directors, and information including the date of exemption, dissenting opinions or reserves by independent directors, exemption period, reasons of exemption, and applicable Guidelines for exemptions shall be disclosed on Market Observation Post System, which allows shareholders to evaluate the adequacy of the resolution by the Board in order to restrain arbitrary or suspicious exemption of following these Guidelines from happening and to ensure there is proper control and manage mechanism for the exemption of following these Guidelines in order to protect the Bank.

Article 12

The Bank shall disclose these Guidelines on the Bank's website, annual report, prospectus, and Market Observation Post System; the same applies in amending these Guidelines.

Article 13

These Guidelines shall be implemented after approved by the Board and reported to the shareholders' meeting; the same applies in amending these Guidelines.

Unit	Address	TEL
Head Office	168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Minicipal Treasury Dept.	1F, 2 Su Wei 3rd Road, Lingya District, Kaohsiung, Taiwan	(886)7-336-0408
International Banking Dept.	2F, 51 Chung Hwa 4th Road, Lingya District, Kaohsiung, Taiwan	(886)7-535-5375
Trust Dept.	3F, 27 Liu Ho 1st Road, Hsinhsing District, Kaohsiung, Taiwan	(886)7-238-5188
Business Dept.	1~3F, 168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Offshore Banking Unit	5F, 168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Tso Ying Branch	479 Tsoying Ta Road, Tsoying District, Kaohsiung, Taiwan	(886)7-581-9131
Pei Kaohsiung Branch	1F, 1012 Min Tsu 1st Road, Sanmin District, Kaohsiung, Taiwan	(886)7-359-9291
Nan Tze Branch	141 Chien Nan Road, Nantze District, Kaohsiung, Taiwan	(886)7-352-4391
Yu Chang Branch	780-3 Chun Hsiao Road, Nantze District, Kaohsiung, Taiwan	(886)7-363-7478
Ku Shan Branch	1018 Chiu Ju 4th Road, Kushan District, Kaohsiung, Taiwan	(886)7-532-1001
San Min Branch	287 Po Ai 1st Road, Sanmin District, Kaohsiung, Taiwan	(886)7-321-8813
Wan Nei Branch	470 Ta Shun 2nd Road, Sanmin District, Kaohsiung, Taiwan	(886)7-386-5905
Min Cheng Branch	1F, 168 Ming Cheng 1st Road, Sanmin District, Kaohsiung, Taiwan	(886)7-359-5336
Chiu Ju Branch	459 Yang Min Road, Sanmin District, Kaohsiung, Taiwan	(886)7-381-2499
Chien Chin Branch	145 Liu Ho 2nd Road, Chienchin District, Kaohsiung, Taiwan	(886)7-286-1136
Chien Kuo Branch	1F, 199 Chien Kuo 1st Road, Lingya District, Kaohsiung, Taiwan	(886)7-223-0511
Nan Kaohsiung Branch	1F, 51 Chung Hua 4th Road, Lingya District, Kaohsiung, Taiwan	(886)7-330-1060
Shih Fu Branch	1F, 2 Su Wei 3rd Road, Lingya District, Kaohsiung, Taiwan	(886)7-335-0260
San To Branch	171 San To 2nd Road, Lingya District, Kaohsiung, Taiwan	(886)7-751-1168
Chien Chen Branch	180 Min Chuan 2nd Road, Chienchen District, Kaohsiung, Taiwan	(886)7-332-7131
Tsao Ya Branch	52 Yu Kang Road, Chienchen District, Kaohsiung, Taiwan	(886)7-841-3847
Hsiao Kang Branch	2F, 158 Hsiao Kang Road, HsiaoKang District, Kaohsiung, Taiwan	(886)7-812-2268
Kwei Lin Branch	332 Kwei Yang Road, HsiaoKang District, Kaohsiung, Taiwan	(886)7-793-1616
Chi Chin Mini Branch	54 Thung Shian Road, Chichin District, Kaohsiung, Taiwan	(886)7-571-8263
Feng Shan Branch	362-6, Sec. 2, Ching Nien Road, Fengshan Dist., Kaohsiung, Taiwan	(886)7-776-3688
Da Fa Branch	1~2F, 480, Fong Lin 3rd Road, Daliao Dist., Kaohsiung, Taiwan	(886)7-786-1899
Gangshan Benjhou Branch	17 Ben Gong Road, Gangshan District, Kaohsiung, Taiwan	(886)7-622-3566
Pin Tung Branch	1F, 152 Chung Cheng Road, Pingtung City, Taiwan	(886)8-736-8811
Tai Nan Branch	191 Cingping Road, Anping District, Tainan City, Taiwan	(886)6-295-5588
Tai Chung Branch	1~2F, 69 Sec.3, Huei Chung Road, Nanthung District, Taichung City, Taiwan	(886)4-2252-2588
Beitun Branch	59, Sec. 4, Wenxin Rd., Beitun Dist., Taichung City 406, Taiwan	(886)4-2292-8366
Dali Branch	290 、 292 Defang S. Road, Dali District, Taichung City, Taiwan	(886)4-2481-6799
Hsin Chu Branch	633, Sec. 2, Jingguo Road, North Dist., Hsinchu City, Taiwan	(886)3-523-0333
Tao Yuan Branch	413 、 415 、 417 Min Sheng Road, Tao Yuan City, Taiwan	(886)3-338-1288
Zhongli Branch	18, Sec. 2, Huannan Rd., Pingzhen Dist., Taoyuan City 324, Taiwan	(886)3- 401-0589
Chung Ho Branch	198, Jian 1st Road, Chunggho Dist., New Taipei City, Taiwan	(886)2-8227-1399
Banciao Branch	100, Sec. 2, Sihchuan Road, Banqiao Dist., New Taipei City, Taiwan	(886)2-8967-1250
Taipei Branch	1~2F, 168 Sung Chiang Road, Chungsang District, Taipei, Taiwan	(886)2-2563-0101
Ta Chih Branch	1F, 97 Jingye 1st Road, Chungsang District, Taipei, Taiwan	(886)2-8502-1656
Po Ai Branch	B1 、 1F, 38 Po Ai Road, Chungcheng District, Taipei, Taiwan	(886)2-2375-1188



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