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KING'S TOWN BANK

STOCK
CODE **2809**

ANNUAL
REPORT

2018

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Please refer to Page 103

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I. LETTER TO SHAREHOLDERS

To make an overview of the year 2018, the Bank benefited from the steady growth of global economy, trading activities continue to heat up, the major counties' economy growth still strong, and higher-than-expected GDP growth rate, 2.63%, of Taiwan. However, as the U.S. progressively adjusted its trading policy in the second half of 2018 and the Fed continuously tightened its monetary policy, the drastic fluctuation of the global financial market impacted the Bank's profit. With the support of customers and shareholders, and the great efforts of all employees, the Bank would still dedicate to making sound financial structure, and offering more diverse and innovative business. The results of our operating performance in 2018 and business plan for 2019 are briefly described below:

A. Operation Performance in 2018

(a) Domestic and Foreign Financial Environment and the Organizational Changes in the Bank in 2018

1. Domestic and Foreign Financial Environment in 2018

According to the World Economic Outlook announced by International Monetary Fund (IMF), the global economy growth was strong in 2017 and the first half of 2018, the forecast for economy growth rate was 3.9%, but the growth rate was revised down 0.2 % and reaches 3.7%. In 2018, global economy took a down turn, suffered from the impact of China-U.S. trade war, many international institutions revised down the forecast, the trade protectionism affect the trade volume, and even developed into a technology war, China economy growth has started to slow down, this fact has significantly impact the global economy growth, and it also makes constant fluctuation in the financial market.

As far as the European and American regions are concerned, the U.S. job market data is bright, but the crude oil and financial markets are volatile which generating some hidden concerns. Employment and domestic demand in the Euro zone are strong, but economic momentum is still offset by international uncertainty. In the Asian region, under the circumstance of international situation, the economy in Japan and Southeast Asia is still in a downturn. In China, the economy is affected by the trade war. The economic growth rate is estimated to fall from 6.0% to 6.5%, which is the lowest in China in 28 years. In terms of Taiwan economy, the Directorate-General of Budget, Accounting and Statistics, Executive Yuan announced that the economic growth rate for the year of 2018 was 2.63%, which was 0.23 percent lower than the 2.86% growth rate in 2017.

Taiwan's semiconductor manufacturing technology is leading the world, coupled with the Internet of Things and Artificial intelligent industry trends, there will be room for Taiwan's development. Private investment is booming and consumption is stable. However, as the global economy depends due to uncertain factors such as trade wars and Brexit, the expert growth would be definitely constrained, and the overall domestic economic cycle will be slowed down, corporate profits and salary levels, plus the international financial environment forecast is still loose, and Taiwan's interest rate will not increase rapidly, which will affect domestic consumer confidence and purchasing power. Manufacturers tend to be conservative about the future.

Looking forward into 2019, the global economic growth will be slightly weaker than the strong growth in the past year and a half, Taiwan is also expected to maintain a certain momentum without stalling, but there are still some uncertain factors affecting the domestic and foreign economy. First of all, the US-China trade policy and industrial development pulse are still one of the important variables affecting global trade and prosperity. Recently, trade disputes have been suspended, and mainland China has also proposed economic reform policies. However, geopolitical risks and

I. Letter to Shareholders

China's economic reform process might still affect the procedures and results of negotiation between the two countries. In addition, the US Federal Reserve's monetary policy adopts a moderately loss trend, and the employment market is strong, which is expected to support the upswing of the economy. However, the uncertainty of Brexit and the recent tightening of German environmental regulations have led to changes in manufacturing and trade in the Eurozone, which require continued attention. Domestically, in response to the uncertainty of the US-China trade war, many Taiwanese businessmen have returned to Taiwan to invest, and funds are expected to enter the stock market and industries, bringing a wave of industrial upgrading and activating the capital market.

2、Organizational Changes in the Bank:

In order to strengthen corporate governance, the The Strategic Planning Department has adjusted the approval level of "representative shareholders or directors of external investment" and "establishment or amendment of various rules in corporate governance" to the board of directors. The Operation Management Department has added "Consolidation of Corporate Governance Evaluation" and "Corporate Social Responsibility" related work items to enhance the effectiveness of the Bank's corporate governance and corporate social responsibility related work. At the same time, increasing the management powers and responsibilities related to the investment business and making the supervision and management mechanism for reinvestment business more complete. The Trust Department of the Bank launched the real estate investment trust business and added the hierarchical level of responsibility for related work items.

(b) Business Plan and Operation Strategy Accomplishment

Item	2018	2017
Average deposit balance on NT Dollar Accounts	167.577 billion	160.749 billion
Average deposit balance on foreign currency Accounts	14.563 billion	15.233 billion
Average loans balance	154.795 billion	133.742 billion
Financial Management Fee Income	0.366 billion	0.445 billion
NPL ratio	0.02%	0.02%
Coverage ratio	6863.31%	6555.68%
BIS ratio	14.04%	15.80%
Tier-1 ratio	13.95%	15.20%

(c) Budget Implementation

Item	Execution	Target	Achievement rate
Average deposit balance on NT Dollar Accounts	167.577 billion	169.157 billion	99.07%
Average deposit balance on foreign currency Accounts	14.563 billion	16.273 billion	89.49%
Average loans balance	154.795 billion	147.137 billion	105.20%

(d) Financial Income and Profitability Analysis

Revenue	Net Income after Tax	EPS	Net profit rate (%)	ROA(%)	ROE(%)
3.573 billion	2.878 billion	2.51	41.11%	1.04%	7.98%

(e) Research and development status review

The bank has a dedicated department responsible for collecting and analyzing the changes in daily macroeconomy, financial situation and legal changes to understand the impact those changes might have on the Bank's business and development, and sending that info to colleagues for reference. In

addition, employees are encouraged to strengthen business innovation and research, and propose various improvement programs to meet market development and customer needs.

B. Summary of Business Plan for 2019

(a) Business policies and Important Operating Policies

- 1、Enhance the inheritance of talents in operation
- 2、Improve quality and focus on risk control
- 3、Utilize FinTech to create business opportunities
- 4、Simplify the process and improve efficiency
- 5、Adjust the structure to strengthen profit.

(b) Business Operation Targets

Operation targets for the Bank in 2019 are as follows:

Average deposit balance on NT Dollar Accounts	Average deposit balance on foreign currency Accounts	Average loans balance
175.540 billion	14.648 billion	160.943 billion

C. Development Strategy

- (a) Keep solid capital and maintain low NPL ratio.
- (b) Actively adjust organization to integrate virtual and physical channels to meet customers' needs and market trend.
- (c) Through digital innovation to subvert traditional business thinking for improving operational efficiency and reduce operating costs.
- (d) Diversified development of business, strengthen mutual marketing with related enterprises, give full play to the marketing spirit of all employees, and expand the scale of business.
- (e) Fulfill the social responsibility, enhance employee welfare, and cultivate the local community.

D. Impact of external competitive environment, regulatory environment and overall business environment

(a) External competitive environment

Due to the fierce competition in domestic banking industry, and the fact that the expansion of interest spreads is not easy, some banks are expanding to overseas markets, and are moving into merging countries such as Southeast Asia. Internationally, the awareness of anti-money laundering has been increased year by year, the influence of the competent authorities and international laws has become stricter, and the operating costs have gradually increased. The growth of mobile payment in Taiwan has accelerated, and the development of financial technology has had an increasing impact on the business model of the financial industry.

(b) Regulatory Environment

In recent years, the Financial Supervisory Commission has listed anti-money laundering, anti-terrorism and security risks as the main focus of financial supervision. In order to maintain the trustworthiness of Taiwan's financial system and ensure the safety and order of Taiwan's financial market, the FSC has enhanced financial industry's focus on regulatory compliance, anti-money laundering and anti-terrorism financing, strengthen the qualification, professional training and their functional roles that the regulatory compliance personnel and supervisors should have, and strengthen the notification mechanism. With the development of information technology and the continuous promotion of the digital financial environment by banks, the FSC also invited banks to strengthen the culture of capital security, comply with relevant asset security regulations, and implement the

I. Letter to Shareholders

mechanism for handling the security protection contingency plan and notification mechanism. The Bank will, in conjunction with the regulations of the competent authorities, implement relevant management measures, implement anti-money laundering and counter-terrorism financing operation and strengthen information security risk control.

(c) Overall Economy

In the first half of 2018, the domestic economy benefited from the employment market and stock market activity, with a growth rate of 3.2%. In the second half of the 2018, due to the turmoil in financial markets and the effect of annuity reform, consumer confidence fell and the growth rate slowed to 2.1%. Economic growth fell to 2.63% from 3.08% in 2017. Looking forward to 2019, the international community generally predicts that the global economy and trade growth will slow down, making it difficult for Taiwan's trade momentum to rebound. Although domestic basic wages and income tax deductions have risen, it is expected that private consumption momentum will be relatively mild, and the returning of Taiwanese businessman to Taiwan for investment is hoped to accelerate economic growth, but the global economic variables are still many, including the progress of US-China trade negotiations, the spillover effect of China's economic slowdown the geopolitical risks, will affect Taiwan's overall economic performance.

E. Latest Credit Rating

Date	Rating Agency	Ratings		Outlook
		National L-Term	National S-Term	
2018.06.05	Fitch Ratings	A+ (twn)	F1 (twn)	Stable

F. Conclusion

In recent years the Bank, faced with changes in domestic and foreign financial environment, has had the honor to enjoy support from our faithful clients and shareholders; and with joint efforts of the all the staff workers, we are gradually seeing the results of our operations. I would like to express my gratitude to all of you. Trust and support from clients are the driving force for the ongoing pursuit of better performance of the Bank. In the future, clients will continue to be our utmost primary and that we will offer the best products and services in pursuit of the maximum profit for the shareholders.

Chen-Chih Tai
Chairman



II. Bank Overview

A. Date of Establishment: November 1, 1948.

B. Bank History

Date	History
November 1, 1948	“Tainan District Joint Saving Co., Ltd.” with an initial capital of 20 million Old Taiwan Dollars.
January 1, 1978	Authorized to rename as “Tainan Business Bank”.
July 20, 1983	Listed on TWSE with stock symbol 2809.
March 14, 2000	Established the International Banking Department.
May 17, 2002	The Bank has invested to establish the affiliate company “Tainan Life Insurance Agent Co., Ltd.” and “Fu Chen Property Insurance Agent Co., Ltd.”.
July 24, 2002	Established the Offshore Banking Unit (OBU) .
August 15, 2005	The Bank undertook a cash capital increase of NT\$3.6 billion in order to qualify as a commercial bank.
May 3, 2006	Authorized to rename as “King’s Town Commercial Bank” (King’s Town Bank for short).
March 28, 2011	Established the "Audit Committee" to improve corporate governance.
September 26, 2011	Established the "Compensation Committee" to improve the remuneration policy of directors and managers.
January 22, 2015	The Bank has invested to establish the wholly owned subsidiary “KTB International Leasing Co., Ltd.”
December 7, 2016	The “KTB International Leasing Co., Ltd.” has invested to establish the wholly owned subsidiary “KTB International Real Estate Management Co., Ltd.”
November 13, 2017	Established the "Corporate Governance and Nomination Committee" to improve the nominating process for directors and managers.

C. The bank mergers and acquisitions, investment of related enterprises, and reorganization situation in 2018 and until the end of March, 2019:

There were no mergers and acquisitions in the Bank in 2018. The Bank has four reinvestment related enterprises, namely, “Tainan Life Insurance Agents (Co. Ltd.) Company” and “Fucheng Property Insurance Agents” and “King’s Town International Leasing (Co. Ltd) Company”, 3 subsidiaries with 100% shareholding, and 1 grandson company, “King’s Town International Construction Company”, which is a 100% reinvestment of “King Town International Leasing Company”.

In order to integrate resources and improve operational efficiency, the Bank applied for concurrent operation of the insurance agent business on March 8, 2019 and has been approved by the competent authority, and the Board of Directors has approved the merger with an insurance agent company on June 3, 2019 in the 45th Board of Directors Meeting of the 14th Board of Directors on March 25, 2019.

II. Bank Overview

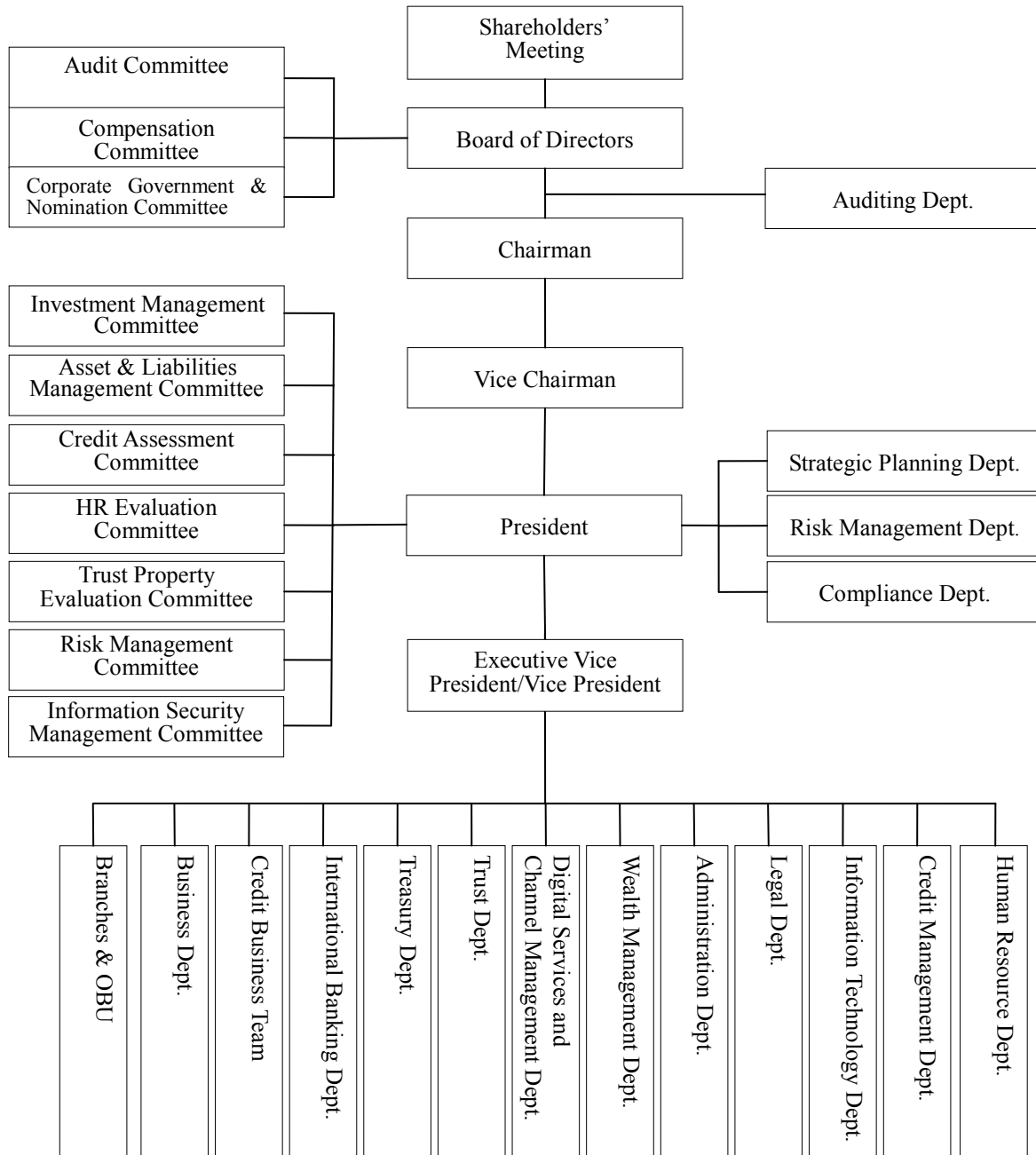
- D. Belonging to a particular financial holding company and beginning to be affiliated with the company: None.
- E. In the year of 2018 and until the end of March 2019, for directors, supervisors and those who should report their share owning according to paragraph 3 of Article 25 of the Banking Act, whose shares have been significantly transferred or replaced: None.
- F. Changes in the right to operate, significant changes in the way of doing business or operation contents and other important matters which might affect shareholders' rights and their impact to the Bank: None.

III. Corporate Governance

A. Organizational System

(a) Organization Chart

(Base date: 2019.03.31)



III. Corporate Governance

(b) Major Departments and business they handle

- 1、 Audit Department: Handling the planning, supervision, execution, tracking and reviewing of the audit business and internal audit tasks in the Bank.
- 2、 Strategic Planning Department: According to the development vision and targets of the top management to conduct review and improvement on the organization, system, procedures and plan execution plan.
- 3、 Digital Services and Channel Management Department: the planning of all deposit, remittance, channels, operation manuals and the digital finance policy in the bank, overseeing the planning and consultation of product design, product planning and marketing.
- 4、 Wealth Management Department: Handling the planning and execution of the wealth management business in the bank, and the design of management, training and evaluation systems for wealth management business personnel.
- 5、 Trust Department: the planning and design for the operation procedure and management regulations and operation manual for trust business in the bank, and the planning, education training and promotion of trust products.
- 6、 Treasury Department: Handling the capital dispatchment and investment related business in the Bank.
- 7、 International Business Department and OBU branch: handling the education training and the design and planning of operation procedures, management regulations and operation manual for foreign exchange business in the Bank.
- 8、 Risk Management Department: Handling the risk management, the formulation and execution of information security policies and reporting to competent authority related business, and the control over investment position and transaction quotas.
- 9、 Credit Management Department: Handling the evaluation, credit checking, appraisal, loan appropriation and the regulation and documents needed for credit related business in the Bank.
- 10、 Legal Department: Handling the legal affairs and management on the debt and non-performing loan cases and other legal related business.
- 11、 Compliance Department: Handle the planning, management, execution of regulatory compliance system and supervise the identification and evaluation and planning and executing the monitoring policy and procedures on money-laundering and anti-terrorism financing.
- 12、 Administration Department: handling the Bank's Board of Directors, stock business administration, public relation, advertisement, accounting, procurement and real estate management related business.
- 13、 Human Resource Department: Handling human resource related administration operation and the planning and execution of personnel development and human resource utilization related system.
- 14、 Information Technology Department: Handling the planning, development and management of various information system in the Bank and the allocation, implementation and the troubleshooting of computer related hardware.
- 15、 Credit Business Team: Handling the promotion of credit cases, and the credit checking and the credit verification related tasks.
- 16、 Business Department : handling the businesses such as deposit, loans, remittance and receiving and the payment for others in a branch, and various settlement business.

B. Directors and Management Team Data

(a) Directors Information

1. Basic Data of directors

Base Date : 2019.02.28

Title	Nationality or Registration Nationality	Name	Gender	Date Effective	Term	Initial Reporting Date to the Job	Shares held when selected		Current shareholding		Spouses and minor child shareholding number		Shares held using others' name		Education & Experience	Concurrent held jobs in the Bank and other Company	Other managers, directors or supervisors with spousal or second-degree relative relationship		
							Shares	Ratio	Shares	Ratio	Shares	Ratio	shares	Ratio			Title	Name	Relation
Director	ROC	Tian Gang Investment Co., Ltd.	-	2017.05.17	3 years	2005.06.23	39,399,025	3.42%	39,399,025	3.45%	-	-	-	-	-	-	-	-	-
Chairman	ROC	Tian Gang Investment Co., Ltd. Representative: Chen-Chih Tai	M	2017.05.17	3 years	2005.06.23	77,824,000	6.76%	77,824,000	6.82%	-	-	-	-	Education : Department of Business Administration, National Chung Hsing University Experience : Executive Director of Macoto Bank, Vice Chairman of the Bank	Director of Tainan Life Insurance Agent Co. Ltd, Director of Fu Chen Insurance Agent Co. Ltd, Director of KTB International Leasing Co. Ltd., Director of KTB International Real Estate Management Co. Ltd, Director of PayEasy Digital Integration Co. Ltd., Director of Mentex Glass Ind Dev. Inc., Director of Taijia Industrial Co. Ltd.	None	None	None
Vice Chairman	ROC	Tian Gang Investment Co., Ltd. Representative: Chiung-Ting Tsai	M	2017.05.17	3 years	2005.06.23	-	-	-	-	23,756,000	2.08%	-	-	Education : Master of Economics, Stanford University Experience : Associate of Huahong Venture Capital	Chairman of Tainan Life Insurance Agent Co. Ltd, Chairman of Fu Chen Insurance Agent Co. Ltd, Director of KTB International Leasing Co. Ltd., Director of KTB International Real Estate Management Co. Ltd, Director of H2O Hotel Co. Ltd., Director of Jingyue Hotel, Director of Kangxi Lehua Co., Ltd.	None	None	None
Director	ROC	Tian Gang Investment Co., Ltd. Representative: Hsien-Tsung Wang	M	2017.05.17	3 years	2013.06.19	29,277,882	2.54%	29,277,882	2.57%	12,432,667	1.09%	-	-	Education : Master of business administration, Chaminade University of Honolulu Experience : Managing Supervisor of King't Town Bank, Manager of Yongchang Investment Co., Ltd., Deputy Manager of Fidelity Investment Co., Ltd., Chief of Credit Investigation Department of Bangkok Bank of Thailand	Chairman of Huangyi Construction Co., Ltd., Chairman of Jianzhi Construction Co., Ltd., Director of Beijing Grand Hotel, Director of Jingyue Hotel, Director of Baiyu Construction Co., Ltd., Nanjing Construction company supervisor, KTB Hotel company supervisor, Jincheng Construction (stock) company supervisor	None	None	None
Director	ROC	Tian Gang Investment Co., Ltd. Representative: Chin-Chung Chuang	M	2017.05.17	3 years	2017.05.17	-	-	-	-	-	-	-	-	Education : National Kaohsiung Institute of Technology Experience : KTB International Real Estate Management Co., Ltd. Vice President	Vice President of KTB International Real Estate Management Co., Ltd.	None	None	None
Independent Director	ROC	Ming-Tai Chen	M	2017.05.17	3 years	2011.06.09	-	-	-	-	-	-	-	Education : Department of waterresource engineering, Tamkang University Experience : President of King's Town Bank, Vice President of Taipei Fubon Bank, Vice President of Citi Bank	None	None	None	None	

III. Corporate Governance

Title	Nationality or Registration Nationality	Name	Gender	Date Effective	Term	Initial Reporting Date to the Job	Shares held when selected		Current shareholding		Spouses and minor child shareholding number		Shares held using others' name		Education & Experience	Concurrent held jobs in the Bank and other Company	Other managers, directors or supervisors with second-degree or relative relationship		
							Shares	Ratio	Shares	Ratio	Shares	Ratio	shares	Ratio			Title	Name	Relation
Independent Director	ROC	Chao-Long Chen	M	2017.05.17	3 years	2017.05.17	-	-	-	-	-	-	-	-	Education : Doctor of Medicine, Kaohsiung Medical University, Honorary Doctor of Engineering, Zhengshu University of Science and Technology Experience : Professor of Chang Gung University, Academician of Chinese Academy of Engineering, Dean of Kaohsiung Chang Gung Memorial Hospital	Chairman of the Board of Directors of CHO Pharma Inc., Honorary Dean of Kaohsiung Chang Gung Memorial Hospital, Director of Taiwan Ai-Hsieh-Hsieh Co., Ltd., Director and Consortium of Taiwan Branch of British Fahrenheit Plastics Industry Co., Ltd. Chairman of the Board of Directors Chen Haolong Academic Foundation, Chairman of the Board of Directors Chen Haolong, Chairman of the Liver Transplantation Foundation, Director of the Taiwan Biotechnology and Pharmaceutical Development Foundation, Director of Fuying University of Science and Technology, Director of Taipei Medical University	None	None	None
Independent Director	ROC	Hong-Liang Jiang	M	2018.11.02	1.54 years	2018.11.02	-	-	-	-	-	-	-	-	Education : Master of Finance, Fu Jen University Experience : Associate of the Operation Management Department of King's Town Bank, Manager of the Corporate Banking of Shin Kong Bank, Professional Examiner of the Industrial Bureau, Chairman of the Board of Directors of Jiu Biotechnology Co., Ltd.	Chairman of the Board of Directors of Hung Appraisal Co., Ltd., Director of Dongguang Computer Co., Ltd., Director of Hung Capital Co., Ltd., Director of Furen Xinchuang Commercial Co., Ltd., Director of Haoshan International Co., Ltd.	None	None	None

2、Major Shareholders of Institutional Shareholders

Base Date: 2019.02.28

Name of Institutional Shareholder	Major Shareholders of Institutional Shareholder
Tian Gang Investment Co., Ltd.	Bai Hong Construction Co., Ltd.(90.91%)、Tien-Tsan Tsai(2.82%)、Mei-Yun Tsai- Hsueh(1.73%)、Chien Chih Construction Co., Ltd. (1.71%)、Po To Mamm Investment Group Ltd. (BVI) (2.73%)、Chiung-Ting Tsai (0.11%)

3、Major shareholders of Major Institutional Shareholders

Base Date: 2019.02.28

Name of Institutional Shareholder	Major Shareholder of the juridical persons
Bai Hong Construction Co., Ltd.	Tien-Tsan Tsai (30.35%)、Jia-Ling Tsai (34.83%)、Yi-Ying Chen (34.83%)
Chien Chih Construction Co., Ltd.	Tien-Tsan Tsai(5.30%)、Hsien-Tsung Wang(61.21%)、Ching Cheng Construction Co., Ltd. (33.48%)
Po To Mamm Investment Group Ltd. (BVI)	Atherton Investment Group Ltd (100%)

4、Professional Knowledge and Independency of the Directors and Supervisors

Criteria Name	Whether has more than five years work experiences and the following qualifications (note 1)			Meet Independency Situation (Note 2)										Number of Concurrent holding of positions as an independent director in other public companies
	1	2	3	1	2	3	4	5	6	7	8	9	10	
Chen-Chih Tai			v	v			v	v	v	v	v	v		None
Chiung-Ting Tsai			v	v			v	v	v	v	v	v		None
Hsien-Tsung Wang			v	v		v	v		v	v	v	v		None
Chin-Chung Chuang			v	v			v	v	v	v	v	v		None
Ming-Tai Chen			v	v	v	v	v	v	v	v	v	v	v	None
Zhi-Jie Xu			v	v	v	v	v	v	v	v	v	v	v	None
Chao-Long Chen			v	v	v	v	v	v	v	v	v	v	v	None
Hong-Liang Jiang			v	v	v	v	v	v	v	v	v	v	v	None

Note 1 : With more than five years work experiences and professional qualification items are as follows:

- (1) Commerce, legal, finance, accounting or banking business related departments with more than instructor level in public or private colleges and universities.
- (2) Judges, prosecutors, lawyers, accountants or other professional and technicians which required national exam to qualify the profession.
- (3) Work experiences in commerce, legal, finance or bank business.

Note 2 : If the directors and supervisors meet the following conditions during the two years prior to the election and during the term of office. Please place“✓”in the space below each condition code.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not being directors and supervisors in the related enterprises of the Bank (except for independent directors set up by the Bank or its parent company or subsidiaries in accordance with the Security Exchange Act or local State laws).
- (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 one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
- (4) Not A spouse, or relative within the second degree of kinship, or lineal relative within the third 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 five percent or more of the total number of issued shares of the company or of a corporate shareholder that ranks among the top five in shareholdings.
- (6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
- (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 company or to any affiliate of the company, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (8) Not having a spousal or the second degree of kinship with other directors.
- (9) There is no situation meet the conditions listed in Article 30 of the Company Act.
- (10) The person is not elected as government or legal person or their representative as stipulated in Article 27 of Company Act.

III. Corporate Governance

5、Directors Training Situation

Title	Name	Training Date	Host Unit	Training Program Name	Hours
Chairman	Chen-Chih Tai	2018.11.26	Security and Future Institute of ROC	The development trend of corporate corruption and prevention-From the perspective of corporate governance.	3
		2018.11.26	Security and Future Institute of ROC	External control structure and practical operation of money laundering prevention	3
Vice Chairman	Chiung-Ting Tsai	2018.11.26	Security and Future Institute of ROC	The development trend of corporate corruption and prevention-From the perspective of corporate governance.	3
		2018.11.26	Security and Future Institute of ROC	External control structure and practical operation of money laundering prevention	3
Director	Hsien-Tsung Wang	2018.12.19	Security and Future Institute of ROC	Tips for directors and supervisors to interpret financial information	3
		2018.12.19	Security and Future Institute of ROC	Corporate Governance and Board Operations	3
Director	Chin-Chung Chuang	2018.11.26	Security and Future Institute of ROC	The development trend of corporate corruption and prevention-From the perspective of corporate governance.	3
		2018.11.26	Security and Future Institute of ROC	External control structure and practical operation of money laundering prevention	3
Independent Director	Ming-Tai Chen	2018.11.26	Security and Future Institute of ROC	The development trend of corporate corruption and prevention-From the perspective of corporate governance.	3
		2018.11.26	Security and Future Institute of ROC	External control structure and practical operation of money laundering prevention	3
Independent Director	Chao-Long Chen	2018.12.06	Taiwan Corporate Governance Association	How directors exercise due diligence	3
		2018.12.06	Taiwan Corporate Governance Association	Talk about the three major principles and practical cases in integrity management, corporate governance and corporate social responsibility	3
Independent Director	Hong-Liang Jiang	2018.11.26	Security and Future Institute of ROC	The development trend of corporate corruption and prevention-From the perspective of corporate governance.	3
		2018.11.26	Security and Future Institute of ROC	External control structure and practical operation of money laundering prevention	3
		2018.11.29	Security and Future Institute of ROC	How directors and supervisor oversee risk management and crisis management and strengthen corporate governance.	3
		2018.12.05	Taiwan Academy of Banking and Finance	Analysis of the supervisors' responsibility and key contents of annual report	3

(b) Major Manager Data

Base Date : 2019.02.28

Title	Nationality	Name	Selected Date	Gender	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Education/Experience	Concurrent held positions in another bank	Manager with spousal or second-degree kinship relationship		
					Shares	Ratio (%)	Shares	Ratio (%)	Shares	Ratio (%)			Title	Name	Relationship
President	ROC	Rizheng Zhang	2017.12.26	M	78,000	0.007	-	-	-	-	Industrial Engineering Institute, NTU	None	No	No	No
Chief Auditor	ROC	Jingzhu Bai	2018.11.06	M	11,022	0.001	-	-	-	-	Graduate Institute of Finance, NCKU	None	No	No	No
Regulatory Compliance Department Deputy GM	ROC	Chi-Wei, Yu	2018.03.15	M	41,000	0.004	-	-	-	-	Law Institute Shanghai Fudan University	Mingzhi Enterprise company supervisor, Hanyun company supervisor, Jiwang Investment company supervisor, Annet Investment company supervisor, Taiwan Investment company supervisor, Daxin marketing (share) company supervisor	No	No	No
Finance Department Associate Vice President	ROC	Chih-Jen, Wu	2011.03.01	M	74,000	0.006	-	-	-	-	Department of Economics Chinese Cultural University	None	No	No	No
Wealth Management Department Associate Vice President	ROC	Hsueh-Ling, Chen	2010.03.01	F	238,673	0.021	180,673	0.016	-	-	Diplomacy Institute, National Chengchi University	Director of Tainan Life Insurance Agent, Co. Ltd. Director of Fu Chen Property Insurance Agent Co. Ltd	No	No	No
Associate Vice President of Head office	ROC	Chih-Cheng Yu	2014.04.28	M	171,444	0.015	-	-	-	-	Hsing Wu Business College Department of Management	Supervisor of Tainan Life Insurance Agent, Co. Ltd. Supervisor of Fu Chen Property Insurance Agent Co. Ltd	No	No	No
Tainan Region Credit Business Team Associate Vice President	ROC	Peng-Chen, Su	2018.12.25	F	23,350	0.002	-	-	-	-	College of Management National Kaohsiung University of Science and Technology	None	No	No	No
Administration Department Associate Vice President	ROC	Chien-Ko, Yang	2018.10.02	M	85,444	0.007	-	-	-	-	Graduate Institute of Finance National Chung Cheng University	Supervisor of Tainan Life Insurance Agent, Co. Ltd. Supervisor of Fu Chen Property Insurance Agent Co. Ltd, Supervisor of KTB International Leasing Co. Ltd.,	No	No	No

III. Corporate Governance

Title	Nationality	Name	Selected Date	Gender	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Education/Experience	Concurrent held positions in another bank	Manager with spousal or second-degree kinship relationship		
					Shares	Ratio (%)	Shares	Ratio (%)	Shares	Ratio (%)			Title	Name	Relationship
												Supervisor of KTB International Real Estate Management Co. Ltd.			
Senior Management Head Office	ROC	Ying-Shuo, Lu	2019.01.23	M	-	-	-	-	-	-	Department of Finance China University of Science and Technology	None	No	No	No
Digital Service and Business Department Senior Manager	ROC	Shu-Chen, Tsai	2019.02.26	F	73,380	0.006	-	-	-	-	Department of Finance National Taiwan University	None	No	No	No
Trust Department Manager	ROC	Chia-Jung, Tsai	2011.11.08	F	3,000	0.000	-	-	-	-	Department of Insurance, Feng Chia University	None	No	No	No
Department of Risk Management Manager	ROC	Hung-Sung, Shen	2014.05.27	M	1,000	0.000	-	-	-	-	Department of Computer Science National Chiao Tung University	None	No	No	No
Information Technology Department Manager	ROC	Hsiang-Yin, Lin	2018.03.27	F	12,142	0.001	-	-	-	-	Department of Information Management, Ming Chuan College of Commerce	None	No	No	No
Credit Department Manager	ROC	Chi-Chia, Chang	2018.12.25	M	-	-	-	-	-	-	Department of Business Mathematics, Soochow University	None	No	No	No
International & OBU Department Manager	ROC	Chi-Chia, Chang	2019.01.01	M	-	-	-	-	-	-	Department of Business Mathematics, Soochow University	None	No	No	No
Legal Department Manager	ROC	Shui-Shan, Huang	2018.12.25	M	23,861	0.002	-	-	-	-	Department of Insurance, Shih-Chien College	None	No	No	No
Operation Management Department Manager	ROC	Ssu-Wei, Chang	2018.12.25	M	146,000	0.013	-	-	-	-	Department of Land Economics, National Chengchi University	Director of Zhu Peng Co. Ltd.	No	No	No
Human Resource Department Manager	ROC	Ssu-Wei Chang	2019.01.01	M	146,000	0.013	-	-	-	-	Department of Land Economics, National Chengchi University	Director of Zhu Peng Co. Ltd.	No	No	No
Chief of Accounting Department	ROC	Yu-Hsuan, Chen	2018.08.07	F	9,000	0.001	-	-	-	-	Department of Accounting, Providence University	None	No	No	No
Business Department of Head Office, Manager	ROC	Ming-Jen, Wu	2018.12.25	M	10,244	0.001	-	-	-	-	Department of International Trade Ming Chuan University	None	No	No	No
Taichung Branch Senior Manager	ROC	Yu-Yin, Ou	2012.02.14	M	136,130	0.012	-	-	-	-	Department of Accounting, Feng Chia University	None	No	No	No
Zhong-Xiao Branch Senior Manager	ROC	Chun-Ting, Tung	2015.01.20	M	16,580	0.001	-	-	-	-	Department of International Trade Chinese Culture University	None	No	No	No
Nankan Branch Senior Manager	ROC	Kai-Ming, Liu	2016.12.13	M	36,000	0.003	-	-	-	-	Department of Economics, National Chung Hsing University	None	No	No	No
Kaohsiung Branch Senior Manager	ROC	Sui-Kuang, Chiang	2018.10.01	M	-	-	-	-	-	-	Department of Applied Business, National Taichung University of Science and Technology	None	No	No	No

III. Corporate Governance

Title	Nationality	Name	Selected Date	Gender	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Education/Experience	Concurrent held positions in another bank	Manager with spousal or second-degree kinship relationship		
					Shares	Ratio (%)	Shares	Ratio (%)	Shares	Ratio (%)			Title	Name	Relationship
Rende Branch Senior Manager	ROC	Chih-Fu, Huang	2018.12.25	M	13,180	0.001	-	-	-	-	Department of Land Economics, National Chengchi University	None	No	No	No
Dounan Manager	ROC	Shu-Chueh, Chen	2013.01.22	F	40,000	0.004	-	-	-	-	Business department, Tuku Vocational High School of Commerce and Industry	None	No	No	No
Lunbei Branch Manager	ROC	Li-Yu, Liao	2013.01.22	F	9,000	0.001	-	-	-	-	Department of Accounting and Statistics Tatung College of Commerce	None	No	No	No
An-He Branch Manager	ROC	Chia-Hao, Tien	2013.01.22	M	8,000	0.001	24,000	0.002	-	-	Department of Economics, Feng Chia University	None	No	No	No
Puzi Branch Manager	ROC	Li-Fen, Tu	2013.07.09	F	2,000	0.000	-	-	-	-	Department of Management and Design, Tatung Institute of Technology	None	No	No	No
Jiali Branch Manager	ROC	Chih-Hung, Lin	2014.01.14	M	8,574	0.001	-	-	-	-	Business administration Institute, National Taiwan University	None	No	No	No
Baihe Branch Manager	ROC	Min-E, Hsu	2014.01.14	F	-	-	-	-	-	-	Department of Accounting and Statistics, Tainan Commercial Vocational Senior High School	None	No	No	No
Beigang Branch, Manager	ROC	Kao-Tien, Su	2014.11.01	M	6,310	0.001	-	-	-	-	School of Management, National Yunlin University of Science and Technology	None	No	No	No
Minxiong Branch Manager	ROC	Hsiu-Mei, Lin	2015.01.20	F	5,706	0.000	-	-	-	-	Graduate Institute of Financial Management, Nan Hua University	None	No	No	No
Luzhou Branch Manager	ROC	Shih-Hsun, Chou	2015.01.20	M	31,000	0.003	-	-	-	-	Graduate Institute of International Enterprise, Sheffield Hallam University	None	No	No	No
Banciao Branch Manager	ROC	Ting-Ming, Hsu	2015.01.20	M	6,000	0.001	-	-	-	-	Department of International Trade, Chinese Culture University	None	No	No	No
ZhongLi Branch, Manager	ROC	Sheng-Yuan, Lo	2015.01.20	M	6,000	0.001	-	-	-	-	Department of Statistics Shih-Chien College	None	No	No	No
Gangshan Branch Manager	ROC	Mei-Yu, Wen	2015.02.17	F	6,000	0.001	-	-	-	-	Department of Finance and Tax Tatung College of Commerce	None	No	No	No
Chiayi Branch Manager	ROC	Ping-Hsun, Tsai	2015.06.01	M	16,310	0.001	-	-	-	-	Department of Accounting and Statistics Tatung College of Commerce	None	No	No	No
An-Nan Branch Manager	ROC	Ta-Yi, Shao	2015.06.01	M	-	-	7,000	0.001	-	-	Department of Finance and Tax Tamsui Vocational High School	Director of Mo Li Industrial Co. Ltd. Director of Beyou Company Ltd.	No	No	No
Guanmiao Branch Manager	ROC	Po-Heng, Chen	2015.06.01	M	-	-	-	-	-	-	Department of Banking and Finance, Xingguo Management College	None	No	No	No
Liujiia Branch Manager	ROC	Meng-Ya, Hsu	2016.03.02	F	9,002	0.001	-	-	-	-	Department of Banking and Finance, Xingguo Management College	None	No	No	No

III. Corporate Governance

Title	Nationality	Name	Selected Date	Gender	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Education/Experience	Concurrent held positions in another bank	Manager with spousal or second-degree kinship relationship		
					Shares	Ratio (%)	Shares	Ratio (%)	Shares	Ratio (%)			Title	Name	Relationship
Wenxin Branch Manager	ROC	Chung-Cheng, Li	2016.03.02	M	310	0.000	-	-	-	-	Department of Management, National Chung Hsing University	None	No	No	No
Changhua Branch Manager	ROC	Wen-Ho, Liao	2016.03.15	M	17,748	0.002	-	-	-	-	Department of Banking and Finance National Yunlin University of Science and Technology	None	No	No	No
Huwei Branch Manager	ROC	Chih-Chieh, Chen	2016.03.15	M	20,568	0.002	-	-	-	-	Department of Management, National Chung Hsing University	None	No	No	No
Guiren Branch Manager	ROC	Ming-Hsien, Wei	2016.05.24	M	6,000	0.001	-	-	-	-	Department of Economics, Tamkang University	None	No	No	No
Nanzi Branch Manager	ROC	Da-Cheng, Lin	2016.05.24	M	3,073	0.000	-	-	-	-	Department of Land Management and Development, Chang Jung Christian University	None	No	No	No
Zhong-zheng Branch, Manager	ROC	Chen-ling, Lai	2016.12.13	F	12,000	0.001	-	-	-	-	Department of Management Soochow University	None	No	No	No
Meishan Branch Manager	ROC	Ying-Feng, Tsai	2016.12.13	M	8,073	0.001	-	-	-	-	Department of Economics, Fu Jen Catholic University	None	No	No	No
Yongkang Branch Manager	ROC	Chao-Hsien, Chou	2016.12.13	M	6,000	0.001	-	-	-	-	Department of accounting, Feng Chia University	None	No	No	No
Hsin-Hsing Branch Manager	ROC	Chiu-Chin, Kuo	2016.12.13	F	3,000	0.000	-	-	-	-	Department of Accounting and Statistics, Tainan University of Technology	None	No	No	No
Shanhua Branch Manager	ROC	Hui-Ling, Ko	2016.12.13	F	8,000	0.001	-	-	-	-	Department of Management National Chiayi University	None	No	No	No
Yujing Branch Manager	ROC	Chien-Hsun, Tseng	2016.12.13	M	-	-	-	-	-	-	Department of Information Management, Kun Shan University	None	No	No	No
Zhongpu Branch Manager	ROC	Chang-Yao, Lin	2017.01.10	M	96,425	0.008	50	0.000	-	-	Department of Accounting and Statistics Tatung College of Commerce	None	No	No	No
Changhua Branch Manager	ROC	Ming-Chou, Kuo	2017.03.28	M	6,000	0.001	-	-	-	-	Department of International Trade Providence University	None	No	No	No
Tainan Branch Manager	ROC	Mei-wen, Wang	2017.04.11	F	3,513	0.000	-	-	-	-	Department of International Trade, Kuo-Chi Junior College of Commerce	None	No	No	No
TaiBao Branch Manager	ROC	Chin-Shan, Chang	2017.06.13	M	2,113	0.000	-	-	-	-	Department of Statistics, Tunghai University	None	No	No	No
Xinzhuang Branch Manager	ROC	Chao-Wei, Hu	2017.06.15	M	-	-	-	-	-	-	Department of Management Science, National Chiao Tung University	None	No	No	No
Credit Business Team-Yulin, Chiayi Team Manager	ROC	Chun-Ching, Chen	2017.06.13	M	8,000	0.001	8,000	0.001	-	-	Department of Economics Feng Chia University	None	No	No	No

III. Corporate Governance

Title	Nationality	Name	Selected Date	Gender	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Education/Experience	Concurrent held positions in another bank	Manager with spousal or second-degree kinship relationship		
					Shares	Ratio (%)	Shares	Ratio (%)	Shares	Ratio (%)			Title	Name	Relationship
Shuang-He Branch Manager	ROC	Wen-Peng, Mo	2017.07.03	M	-	-	-	-	-	-	College of Management, Fu Jen Catholic University	None	No	No	No
Xindian Branch Manager	ROC	Chien-Chen, Chen	2017.07.18	M	3,000	0.000	-	-	-	-	Department of Agricultural Economics, National Taiwan University	None	No	No	No
Douliu Branch Manager	ROC	Shih-Ping, Chang	2017.09.13	M	6,000	0.001	-	-	-	-	Department of Business Administration, National Chiayi University	None	No	No	No
Fu-Cheng Branch Manager	ROC	Yuan-Ping, Tsai	2017.12.26	M	5,000	0.000	7,000	0.001	-	-	Department of Business Administration, Southern Taiwan University of Science and Technology	None	No	No	No
Xinshi Branch Manager	ROC	Chi-Pin, Lin	2017.12.26	M	7,368	0.001	-	-	-	-	Department of International Trade, Ling-Tung College of Commerce	None	No	No	No
Hsinchu Branch Manager	ROC	Kuo-Feng, Lin	2017.12.26	M	1,000	0.000	-	-	-	-	Department of Banking and Insurance, Feng Chia University	None	No	No	No
Xigang Branch Manager	ROC	Li-Hsueh, Hsu	2017.12.26	F	-	-	-	-	-	-	Clothing Design Department, Tainan University of Technology	None	No	No	No
Yunong Branch Manager	ROC	Liang-Pin, Chen	2017.12.26	M	6,000	0.001	-	-	-	-	Department of Business Administration, Southern Taiwan University of Science and Technology	None	No	No	No
Dali Branch Manager	ROC	Ching-Mei, Wu	2017.12.26	F	4,000	0.000	-	-	-	-	Department of Business, National Chiayi Commercial Actional high School	None	No	No	No
Madou Branch Manager	ROC	Chan-Chih, Kang	2017.12.26	M	6,000	0.001	-	-	-	-	Department of Economics, Soochow University	None	No	No	No
Xinying Branch Manager	ROC	Kuo-Sung, Kuo	2018.03.13	M	5,001	0.000	-	-	-	-	Department of Economics, Feng Chia University	None	No	No	No
Kai-Yuan Branch Manager	ROC	Yu-Chin, Chiu	2018.03.13	M	2,000	0.000	-	-	-	-	Department of Bank Management, Tamsui Institute of Business Administration	None	No	No	No
Yen-Hang Branch, Manager	ROC	Chin-Chuan, Chang	2018.04.01	M	-	-	-	-	-	-	Department International Trade, Tamsui Institute of Business Administration	None	No	No	No
Zhong-Hua Branch Manager	ROC	Kao-hui, Lin	2018.04.01	M	7,000	0.001	5,000	0.000	-	-	Department of Library Information Shih-Hsin University	None	No	No	No
Dali Branch Manager	ROC	Ting-Chen, Chang	2018.12.01	F	8,000	0.001	-	-	-	-	Department of International Trade, Ling Tung Junior College of Commerce	None	No	No	No
Neihu Branch Manager	ROC	Ping-Chao, Ho	2018.12.25	M	38,000	0.003	50,000	0.004	-	-	Department of Insurance and Financial Management, Takming University of Science and Technology	None	No	No	No

III. Corporate Governance

Title	Nationality	Name	Selected Date	Gender	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Education/Experience	Concurrent held positions in another bank	Manager with spousal or second-degree kinship relationship		
					Shares	Ratio (%)	Shares	Ratio (%)	Shares	Ratio (%)			Title	Name	Relationship
Taipei Branch Manager	ROC	Kuang-Ti, Yang	2018.12.25	M	1,000	0.000	-	-	-	-	Department of Business Administration, Chung Yuan Christian University	None	No	No	No
Xuejia Branch Manager	ROC	Li-Ling, Wu	2018.12.25	F	19,884	0.002	-	-	-	-	Department of Business Administration, Chinese Culture University	None	No	No	No
Yanshui Branch Manager	ROC	Tsan-Chin, Mao	2018.12.25	M	4,171	0.000	3,056	0.000	-	-	Applied Mathematics, Chung Yuan Christian University	None	No	No	No
Xinhua Branch Manager	ROC	Ching-Chung, Hsu	2018.12.25	M	-	-	-	-	-	-	Department of Economics, Tunghai University	None	No	No	No
East Tainan Branch Manager	ROC	Mei-Lien, Wu	2018.12.25	F	34,784	0.003	10,000	0.001	-	-	Department of Accounting and Statistics, National Tainan Commercial Vocational Senior High School	None	No	No	No
Hsin-Yeh Branch Manager	ROC	Chih-Jen, Liao	2018.01.23	M	1,444	0.000	-	-	-	-	Department of BioBusiness Management, National Chiayi University	None	No	No	No
Shuishang Branch Manager	ROC	Man-Chun, Chu	2019.01.23	F	-	-	-	-	-	-	Department of Finance, Tatung Institute of Technology	None	No	No	No
Zhuqi Branch Manager	ROC	Li-Wen, Tsai	2019.01.23	F	3,199	0.000	-	-	-	-	Department of Accounting and Statistics, Tatung College of Commerce	None	No	No	No
North Kaohsiung Branch Deputy Manager	ROC	Ying-Hsiang, Wang	2019.01.23	M	23,000	0.002	4,000	0.000	-	-	Department of business administration, Tunghai University	None	No	No	No
Songshan Branch Manager	ROC	Chih-Hao, Ping	2019.02.26	M	-	-	-	-	-	-	Department of Economics, SooChow University	None	No	No	No
Taoyuan Branch Deputy Manager	ROC	Wen-Ying, Hsieh	2019.02.26	M	-	-	-	-	-	-	Department of International Trade, Chinese Culture University	None	No	No	No
East Hsinchu Branch Manager	ROC	Shu-Ling, Chang	2019.02.26	F	-	-	-	-	-	-	Institute of Human Resource Management, NSYSU	None	No	No	No

(c) Information on Retired Chairman and President returning as consultant

Title	Nationality	Name	Gender	Job before Retirement		Date for taking Consultant Position	Purpose of hiring	Responsibilities	Remuneration	Ratio of Remuneration to after tax net profit
				Institution and Title	Retirement Date					
-	-	-	-	-	-	-	-	-	-	-

Note 1 : After-tax net profit refers to the after-tax net profit of individual or individual financial reports in the most recent year.

C. Remuneration and distribution of employee compensation for directors (including independent directors), supervisors, general managers and deputy general managers in the year of 2018

(a) Remuneration of directors (including independent directors)

2018

Unit: NT dollars

Title	Name	Director Remuneration								The ratio of the total in A,B,C and D to the Net Profit after tax		Related Compensation collected as an employee								The ratio of the total in A,B,C,D,E,F,G to the Net Profit after tax		Whether to receive the remuneration from the subsidiary company
		Remuneration (A)		Resignation Pension (B)		Remuneration (C)		Business Execution Fee (D)				Salary, Bonus and Special expenses(E)		Retirement Pension (F)		Employee Remuneration (G)						
		The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank		All companies within the financial report		The Bank	All companies within the financial report	
																Cash Amount	Stock Amount	Cash Amount	Stock Amount			
Chairman	Cheng-Chih Dai	13,947,500	13,947,500	0	0	0	0	240,000	240,000	0.49%	0.49%	0	0	0	0	0	0	0	0	0.49%	0.49%	No
Vice Chairman	Chiung-Ting, Tsai	8,422,500	8,422,500	0	0	0	0	240,000	240,000	0.30%	0.30%	0	0	0	0	0	0	0	0	0.30%	0.30%	No
Director	Hsien-Tsung, Wang	480,000	480,000	0	0	0	0	284,000	284,000	0.03%	0.03%	0	0	0	0	0	0	0	0	0.03%	0.03%	No
Director	Chin-Chung, Chuang	480,000	480,000	0	0	0	0	286,000	286,000	0.03%	0.03%	0	0	0	0	0	0	0	0	0.03%	0.03%	No
Independent Director	Ming-Tai Chen	960,000	960,000	0	0	0	0	292,000	292,000	0.04%	0.04%	0	0	0	0	0	0	0	0	0.04%	0.04%	No
Independent Director	Chao-Lung, Chen	960,000	960,000	0	0	0	0	288,000	288,000	0.04%	0.04%	0	0	0	0	0	0	0	0	0.04%	0.04%	No
Independent Director	Chih-Chieh, Hsu (Note 1)	400,000	400,000	0	0	0	0	114,000	114,000	0.02%	0.02%	0	0	0	0	0	0	0	0	0.02%	0.02%	No
Independent Director	Hung-Liang, Chiang (Note 1)	157,334	157,334	0	0	0	0	45,334	45,334	0.01%	0.01%	0	0	0	0	0	0	0	0	0.01%	0.01%	No

Except as disclosed in the above table, whether the directors of the company provided services for all companies in the financial report and receive remuneration (such as being a consultant, not an employees): No.

Note :

- (1) Independent Director Chih-Chieh, Hsu has resigned from 2018.05.16 and Independent Director Hung-Liang, Chiang took office at 2018.11.02. This form is to disclose the remuneration for his service in 2018.
- (2) The net profit of the Bank in 2018 was 2,877,801,000 NT dollars.
- (3) The content of the remuneration disclosed is different from the income concept of the income tax law. The purpose is to disclose the information and not to be used for taxation purpose.

(b) Remuneration of President and Vice President

2018

Unit: NT dollars

Title	Name	Salary (A)		Retirement Pension (B)		Bonus and Special expenses(C)		Amount of Employee remuneration (D)				A The ratio of the total in A,B,C and D to the Net Profit after tax (%)		Whether to receive the remuneration from the subsidiary company
		The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank	All companies within the financial report	The Bank		All companies within the financial report		The Bank	All companies within the financial report	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Jih-Cheng, Chang	5,093,400	5,093,400	0	0	4,000,450	4,000,450	685	0	685	0	0.32%	0.32%	No
Chief Auditor	Yi-Lu, Kung (Note 1)	1,272,024	1,272,024	0	0	1,321,975	1,321,975	685	0	685	0	0.09%	0.09%	No
Deputy Chief Auditor	Chien-Ko, Yang (Note 1)	298,080	298,080	0	0	20,000	20,000	685	0	685	0	0.01%	0.01%	No
Chief Auditor	Ying-Chu, Bo (Note 1)	300,000	300,000	0	0	22,500	22,500	685	0	685	0	0.01%	0.01%	No
Vice President	Han-Tsung, Pan (Note 2)	354,510	354,510	0	0	806,740	806,740	0	0	0	0	0.04%	0.04%	No
Vice President	Chi-Wei, Yu (Note 2)	1,221,588	1,221,588	0	0	147,500	147,500	685	0	685	0	0.05%	0.05%	No

Note 1 : Chief Auditor Yi-Lu Kung resigned on 2018.08.08 and deputy chief auditor temporarily covered the job, and later on 2018.10.02, deputy chief auditor Ying-Chu, Po took over as the deputy, and was appointed as the Chief Auditor on 2018.11.6, this table discloses the remuneration during 2018.

Note 2 : Vice President Han-Tsung Pan resigned on 2018.03.15, and vice president Chi-wei Yu took over the job on 2018.03.15.

(c) Name of managers who receive employee compensation and the distribution status:

2018

Unit: NT dollars

Title	Name	Stock Amount	Cash Amount	Total	Ratio of the total amount to net profit after tax (%)
President	Jih-Cheng, Chang	0	7,535	7,535	0.00026183186%
Chief Auditor	Yi-Lu, kung (Note 1)				
Chief Auditor	Ying-Chu, Bo				
Vice President	Chi-wei, Yu				
Associate Vice President	Hsueh-Ling, Chen				
Associate Vice President	Jr-Cheng, Yu				
Associate Vice President	Peng-Jen, Su				
Associate Vice President	Yu-Yin, Ou				
Finance Chief (Associate Vice President)	Jr-ren, Wu				
Associate Vice President	Jyan-Ge, Yang				
Accounting Chief	Yu-Sywan, Chen				
Total		0	7,535	7,535	0.00026183186%

Note 1 : Chief Auditor Yi-Lu, Kung resigned on 2018.08.08 .

III. Corporate Governance

- (d) The analysis on the total amount of remuneration to directors, supervisor, president and vice president to net profit after tax, the policies, standards and portfolios of the payment of remuneration, the procedures for the establishment of remuneration and the correlation with business performance:

1、Analysis to the ration to net profit after tax

Unit: NT dollars

Title	2017		2018	
	The Bank	Consolidated Statement for all related companies	The Bank	Consolidated Statement for all related companies
Directors	28,214,000	28,214,000	27,596,668	27,596,668
President & Vice Presidents	20,566,970	20,566,970	14,862,192	14,862,192
Total	48,780,970	48,780,970	42,458,860	42,458,860
Ratio to net profit after tax	0.87%	0.87%	1.48%	1.48%

- 2、Policies, standards and portfolio of remuneration payment, the procedure for setting remuneration and operation performance and the correlation with future risk

(1) Directors

According to the provisions of Article 33 of the Articles of Association of the Company, if the company makes a profit in the year, the directors' remuneration should be no more than 2% of the net profit after tax. However, when the company still has accumulated losses, the reserve for covering the losses should be retained in advance. No directors have been paid in the last two years. In accordance with Article 25-1 of the Articles of Association of the Company: "The remuneration of directors shall be determined by the board of directors with reference to the relevant peers and listed companies." The remuneration of the directors of the Bank refers to the level of peers, the individual performance of the directors, the company's operating performance and the performance evaluation results of the board of directors as basis. Since July 1, 1996, the executive execution fee of the Bank's directors is 20,000 NT dollars per person per month.

(2) Independent Directors

The procedures for setting the remuneration of the independent directors of the Bank are based on Article 25-1 of the Articles of Association. The board of directors refer to remuneration for independent directors in the relevant industry and listed companies, and adopts a monthly fixed salary of 80,000 NT dollars. The business execution expenses are based on the standard for the president, except for the monthly fixed remuneration, the independent directors shall not claim the remuneration for directors as stipulated in the Articles of Association.

(3) President, Vice President, Chief Auditor

The performance appraisal and remuneration system of the president, vice president and chief auditor of the Bank are handled in accordance with the "year-end appraisal method for employees", "employee remuneration assessment method" and "year-end bonus distribution method. The bonus portion of the reward system is linked to the company's operating performance and individual appraisal results. However, in the event of a major risk event involving a defect, which is sufficient to cause the company to lose or affect the goodwill, the board of directors shall take measures such as dismissal, transfer, termination or reduction of bonuses, depending on the circumstances in addition to the necessary driplines according to laws and regulations.

- (4) After the establishment of the remuneration committee in accordance with the law on September 26, 2011, the annual and long-term performance objectives and remuneration policies, standards, standards and structures of directors and manager remuneration are reviewed and evaluated by the committee on a regular basis.

D. Corporate Governance Operation Status**(a) Board of Directors Operation Status**

In 2018, the Board of Directors had 25 meetings, the attendance of the directors is as follow:

Title	Name	Actual Attendance	Delegate Attendance	Actual Attendance Ratio	Note
Chairman	Tian Gang Investment Co., Ltd. Representative: Chen-Chih Tai	24	1	96.00%	Reelected 2014.06.20, Reelected 2017.05.17
Vice Chairman	Tian Gang Investment Co., Ltd. Representative: Chiung-Ting Tsai	21	4	84.00%	Reelected 2014.06.20, Reelected 2017.05.17
Director	Tian Gang Investment Co., Ltd. Representative: Hsien-Tsung Wang	20	5	80.00%	Reelected 2014.06.20, Reelected 2017.05.17
Director	Tian Gang Investment Co., Ltd. Representative: Chin-Chung Chuang	22	3	88.00%	Elected 2017.05.17
Independent Director	Ming-Tai Chen	25	0	100.00%	Reelected 2014.06.20, Reelected 2017.05.17
Independent director	Chao-Long Chen	23	2	92.00%	Elected 2017.05.17
Independent director	Hong-Liang Jiang	4	0	100.00%	Elected 2018.11.02
Independent director	Chih-Chieh, Hsu	5	4	55.56%	Elected 2017.05.17 · Resigned 2018.05.16

Other matters that should be recorded:

- 1、When the Board of Directors encounters any of the following circumstances, the meeting date, ordinal number of sessions, content of agenda item, opinions of every independent director, and the bank handling of such opinions shall be recorded:

(1) Matters listed in Article 14-3 of the Security and Exchange Act:

Board of Directors	Content of the proposal and the following processes	Items listed in Article 14-3 of Security and Exchange Act	Independent directors hold objections or reservations
2018.08.06 30 th meeting of the 14 th Board of Directors	1. Amendment to the “Regulations governing the implementation of King’s Town Bank Internal Control and Audit System”	V	
	2. Change of Accounting head	V	
	3. Change of Audit Office Head	V	
	Independent directors opinion: None		
	Company’s handling to the opinion of independent directors: None		
Resolution: All attending directors agree and pass the proposal.			
2108.11.12 37 th meeting of the 14th Board of Directors	Submitting the evaluation on the independency and appropriateness of the signing accountant of the Bank.	V	
	Independent directors’ opinion: None		
	Company’s handling to the opinion of independent directors: None		
	Resolution: All attending directors agree and pass the proposal.		
2019.01.21 42 th meeting of the 14th Board of Directors	Amendment to the Bank’s “Procedure for handling the acquisition and disposal of assets”	V	
	Independent directors’ opinion: None		
	Company’s handling to the opinion of independent directors: None		
	Resolution: All attending directors agree and pass the proposal.		

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2019.02.25 43 th meeting of the 14th Board of Directors	The case regarding the replacement of the signing Accountants of the Company and independent evaluation result on the accountant.	V	
	Independent directors' opinion: None		
	Company's handling to the opinion of independent directors: None		
	Resolution: All attending directors agree and pass the proposal.		

(2) In addition to the above matters, other board of directors' resolutions that have been objected to or retained by independent directors and have a record or written statement: None

2、Situation on the execution of avoiding motions involving conflict of interest on directors, the name of the director, content of the discussion and the reason for avoiding and the situation on the voting for resolution should be recorded:

On 2018.01.22, the 17th board of directors meeting for the 14th Board of Directors passed the "Year-end bonus payment conditions and standards for Chairman and Vice Chairman, the Chairman, Chen-Chih Tai, and Vice Chairman, Chiung-Ting Tsai excused themselves according to the Article 16 of the "Rules and Procedures for Board of Directors Meeting" and did not join the discussion and voting, they also did not vote on behalf of other directors to exercise their voting rights.

3、Evaluation on the implementation and the goals (such as the establishment of audit committee, and enhancing the information transparency) to enhance the functionality of the Board of Directors for the year and over recent years:

In April of 2018, the company was ranked the "top five percent of the listed companies" by the fourth (2017) corporate governance evaluation by the Securities and Futures Market Development Foundation.

In May of 2018, the Bank revised the "Measures for Performance Evaluation of the Board of Directors and Functional Committees of King's Town Bank" to include functional committees in the scope of performance evaluation to implement corporate governance and enhance the functions of the board of directors.

The board of directors of all directors in 2018 should attend 163 times, the actual number of attendances was 144, and the actual attendance rate was 88.3%.

The number of training hours for each of the directors in the year of 2018 is in line with the requirements for the "Directions for the implementation of continuing education for directors and supervisors of TWSE listed and TPEX listed companies".

The attendance rate of the independent director Ming-Tai Chen in the year of 2018 is 100%, which is in line with the requirement that at least one independent director should attend in person at each board meeting.

(b) Operations of the Audit Committee

The Audit Committee calls 7 meetings in 2018, and the records of attendance by independent directors are shown as follows:

Title	Name	Attendance in Person	Attendance by delegates	Actual Attendance Rate (%)	Note
Independent Director	Ming-Tai Chen	7	0	100%	Reelected on 2017.05.17
Independent Director	Chao-Long Chen	7	0	100%	Elected on 2017.05.17
Independent Director	Hong-Liang Jiang	1	0	100%	Elected on 2018. 11.02
Independent Director	Chih-Chieh, Hsu	0	2	0%	Elected on 2017. 05.17 Resigned on 2018.05.16

Other matters required to be recorded :

- 1、When Audit Committee encounters any of the following circumstances, the meeting date, ordinal number of sessions, content of agenda items, resolution results of the meeting, and the Bank's handling of opinions expressed by the Audit Committee shall be recorded:

(1) Matters as provided by Article 14-5 of the Securities and Exchange Act:

Board of Directors	Content of the proposal and the following processes	Items listed in Article 14-5 of Security and Exchange Act	Independent directors hold objections or reservations
2018.08.06 30 th meeting of the 14th Board of Directors	1. Amendment to the “Regulations governing the implementation of King’s Town Bank Internal Control and Audit System”	V	
	2. Change of Accounting head	V	
	3. Change of Audit Office Head	V	
	Audit Committee Resolution Result (2018.08.20): All members of the Audit Committee agree with the suggestions and passed the resolution. Company’s handling to the opinion of Audit Committee : All attending directors agree and pass the resolution		
2108.11.12 37 th meeting of the 14th Board of Directors	Submitting the evaluation on the independency and appropriateness of the signing accountant of the Bank.	V	
	Audit Committee Resolution Result (2018.11.12): All members of the Audit Committee agree with the suggestions and passed the resolution.		
	Company’s handling to the opinion of Audit Committee : All attending directors agree and pass the resolution		
2019.01.21 41th meeting of the 14 th Board of Directors	Amendment to the contents of the Bank’s “Handling procedure for obtaining and disposal of assets”	V	
	Audit Committee Resolution Result (2019.01.21): All members of the Audit Committee agree with the suggestions and passed the resolution.		
	Company’ s handling to the opinion of Audit Committee : All attending directors agree and pass the resolution		
2019.02.25 43 th meeting of the 14th Board of Directors	1. 2018 Individual Company Finance Statement and Consolidated Finance Report and Business Report.	V	
	2. The case regarding the replacement of the signing Accountants of the Company and independent evaluation result on the accountant.	V	
	Audit Committee Resolution Result (2019.02.25): All members of the Audit Committee agree with the suggestions and passed the resolution.		
	Company’s handling to the opinion of Audit Committee : All attending directors agree and pass the resolution		

(2) In addition to the foregoing, any matters which have not been adopted by the Audit Committee yet receive agreement by resolution of more than two-thirds of all director members: None.

- 2、Cases in which any of the independent directors have abstained on the ground of conflict of interest, with his/her name, content of motion, reasons for abstention and voting that should be clearly recorded: None.
- 3、Communications between the independent directors, internal auditing head, and CPAs (which should include the material matters, ways and results in the Bank’s finance and business):

Communications between the independent directors and the internal auditing head

The directors and the internal audit supervisors hold at least one meeting each year to fully communicate on issues such as internal control and internal auditing business, and prepare meeting minutes to report to the board of directors; and the internal auditing supervisor reports to the audit committee at least every six months on the auditing operations.

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Date	Key Communication Points	Suggestion and Results
2018.02.26 Audit Committee	Auditing Business Report for the second half of 2017	After the options are discussed and passed, submitted to the Board of Directors
2018.02.26 Auditing Meeting	Review on the Internal Control System for 2017	No Objections
2018.08.06 Audit Committee	Auditing Business Report for the first half of 2018	After the options are discussed and passed, submitted to the Board of Directors
2019.02.25 Audit Committee	Auditing Business Report for the second half of 2018	After the opinion are discussed and passed, submitted to the Board of Directors
2019.03.25 Auditing Meeting	Review on the Internal Control System for 2018	No objections

Communication between the Bank's independent directors and CPAs

The Bank's CPAs have meeting with independent directors at least once every six months to discuss the key auditing items, the CPAs also report to the Audit committee for the checking and review results of the quarterly finance statements.

Date	Key Communication Points	Suggestion and Results
2018.02.26 Audit Committee	CPAs report the auditing items for 2017 financial statements	After the opinions are discussed and passed, submitted to the Board of Directors
2018.08.06 Communication Meeting	CPAs conduct communication on the key auditing items for the first half of 2018.	No objections
2018.08.06 Audit Committee	CPAs report the auditing items for the financial reports for the first half of 2018.	After the opinions are discussed and passed, submitted to the Board of Directors
2019.02.25 Communication Meeting	CPAs conduct communication on the key auditing items for the first half of 2018.	No objections
2019.02.25 Audit Committee	CPAs report the auditing related matters for the financial statements for 2018.	After the opinions are discussed and passed, submitted to the Board of Directors

4、The duties of the Committee are as follows:

- (1) Establish or amend the internal control system in accordance with Article 14-1 of the Securities and Exchange Act.
- (2) Assessment of the effectiveness of the internal control system.
- (3) To determine or amend the handling procedures for obtaining or disposing of assets, engaging in derivative commodity transactions, and exposing financial forecasting information, etc., in accordance with Article 36-1 of the Securities and Exchange Act.
- (4) Matters involving the director's own interests.
- (5) Significant assets or derivatives transactions.
- (6) Raise, issue or privately issue securities of an equity nature.
- (7) Appointment, dismissal or remuneration of CPAs.
- (8) Appointment and dismissal of the head of finance, accounting or internal audit.
- (9) Annual financial report and semi-annual financial reporting.
- (10) Major matters specified by other companies or authorities.

(c) Items disclosed in accordance with the Corporate Governance Code of Practice for Banking Industry

- 1、The Bank has a "Code of Practice for Corporate Governance", of which "Chapter 4 Strengthens Board Functions" has a policy of diversity of board members. The nomination and selection of the board of directors of the Bank is in accordance with the requirements of the company's Article of Association. In addition to assessing the academic qualifications of each candidate, it also complies with the "Director Selection Procedures" and the "Code of Practice for Corporate Governance" to ensure diversity and independence of the members of the Board of Directors.

- 2、The current board of the Bank is consisted of 7 directors and all of them do not have the positions of employees in the Bank, including 3 independent directors, they have extensive experiences in financial accounting, industrial knowledge and professional capability on bank management, the directors who professional and industrial experiences in bank management. Financial analysis and macroeconomic analysis are director Chen-Chih Tai and Chiung-Ting Tsai, director specialized in construction and land development with rich experiences is director Chin-Chung Chuang; directors Hsien-Tsung Wang and Director Hong-Liang Jiang are specializing in risk management, marketing business and financial business; independent director Chao-Long Chen specializes in medical research and international development cooperation; the diversity and complementarity of the board of directors has contributed to the development of the Bank’s depository business, corporate finance and investment business.
- 3、According to Article 29 of the Bank's Code of practice for Corporate Governance, directors should generally have the knowledge, skills and literacy necessary to perform their duties. In order to achieve the ideal goal of corporate governance, the Board of Directors of the Bank implemented diversified situations as follows:

	Basic component						Capability						
	Nationality	Gender	Age			Independent director term		Operation judgement and management	Financial accounting	Crisis handling risk management	Industry knowledge	View of international market	leadership
			45 to 50	51 to 60	61 to 70	Below 3 years	3 to 9 years						
Chen-Chih Tai	ROC	M			V			V	V	V	V	V	V
Chiung-Ting Tsai	ROC	M	V					V	V	V	V	V	V
Hsien-Tsung Wang	ROC	M		V				V	V	V	V	V	V
Chin-Chung Chuang	ROC	M			V			V		V	V	V	V
Ming-Tai Chen	ROC	M			V		V	V	V	V		V	V
Chao-Long Chen	ROC	M			V	V		V		V	V	V	V
Chih-Chieh, Hsu (2018.05.16 resign)	ROC	M		V		V				V	V	V	V
Hong-Liang Jiang (2018.11.02 report to the position)	ROC	M		V		V		V	V	V	V	V	V

(The Bank also focuses on gender equality in the composition of the board of directors and expects to add a female director to the next board of directors.)

- 4、Other corporate governance related data, please refer to the website of the Bank: About/Corporate Governance (<https://customer.ktb.com.tw/new/about/85d553f6>)

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(d) The differences between the corporate governance operation situation and the code of practice for corporate governance in banking industries and their causes

Evaluation Item	Operation Status			Differences to the code of practice for corporate governance in banking industry and their causes
	Y	N	Summarized explanation	
1. Bank equity structure and shareholders' equity				
(1) Does the bank have an internal operating procedure to deal with shareholder recommendations, doubts, disputes and litigation matters, and implement them according to procedures?	V		(1) The Bank has a "Guidelines for Handling Customer Complaints" and has a dedicated contract window. This window has in-depth understanding after receiving customer or shareholder suggestions, doubts or disputes, and is handed over to the relevant units for processing. And the Customer complaint case are handled according to the regulated time. .	(1) No difference.
(2) Does the bank have a list of the ultimate controllers of the major shareholders controlling the company, and the ultimate controller of the major shareholders?	V		(2) The Bank keeps constant tracks on the shareholdings of the directors, the corporate represented by the directors, manager and shareholders with more than 10% of shares, and disclose the changes and pledges monthly and enter those info into the public information observatory on time.	(2) No difference.
(3) Does the Bank establish, implement and manage risk management and firewall mechanisms between related companies?	V		(3) The Bank has a "Operation Principle for filing Interested Parties Information" and a database of interested parties with related companies to comply with Articles 32 and 33 of the Banking Act and related laws (orders). In addition, the operation, financial business information and audit management of the reinvestment subsidiaries are handled in accordance with the "Guidelines for the Supervision and Management of Subsidiaries of King's Town Bank".	(3) No difference.
2. The makeup of the Board of Directors and the duties and responsibilities				
(1) In addition to setting up the remuneration committee and the audit committee according to law, does the bank voluntarily set up other types of functional committees?	V		(1) The Bank has set up a Remuneration Committee and an Audit Committee. In November 2006, the "Corporate Governance and Nomination Committee" was established to formulate standards for the diversity of background and independence of board members, and to conduct performance evaluations of the Board of Directors and committees. , review, implementation and evaluate effectiveness of corporate governance systems.	(1) No difference.

Evaluation Item	Operation Status			Differences to the code of practice for corporate governance in banking industry and their causes
	Y	N	Summarized explanation	
(2) Does the bank regularly assess the independence of the CPAs ?	V		(2) The Bank first assesses the independence and eligibility of the CPAs by the Administrative Management Department on the basis of the "Accountability, Independence and Competency Assessment Form for CPAs" and confirms the fees of the accountants and the Bank in addition to signing and taxation cases. Or the spouse is not an employee of the Bank or a related enterprise, a supervisor or a second kinship of the manager, and does not hold the Bank's shares in excess of the standard, and has no other financial interests and business relationships. No violation of independence is found.	(2) No difference.
3. If the listed company is a listed company, is there any dedicated unit or personnel responsible for corporate governance related matters (including but not limited to providing information required by directors and supervisors to conduct business, and handling matters related to the board of directors and shareholders meeting in accordance with the law., handling company registration and change registration, production of board of directors and shareholders meeting, etc.)?	V		<p>The "Administration Department" of the Bank is a full-time corporate governance unit. The board of directors passed the resolution on February 25, 2019, and the head of the administrative department, Associate Vice President Chien-Ko Yang, was appointed as the head of corporate governance to protect shareholders' rights and strengthen the functions of the board of directors. Chien-Ko Yang has already had the experience of managing the finance, shareholder affairs and meetings in publicly listed companies for more than three years. The main duties of corporate governance personnel are to provide the information required by the directors to conduct business, assist directors and independent directors to follow the laws and regulations, and handle matters related to the board of directors and shareholders meeting in accordance with the law. The implementation of the 2018 annual business is as follows::</p> <p>(1) To handle matters related to the meetings of the board of directors and the audit committee in accordance with the law, at least 7 days before the meeting, notify all directors to attend and provide sufficient meeting materials to facilitate the directors to understand the content of the relevant issues; if the content of the issues is relevant to the stakeholders and should In case of proper avoidance, a relative pre-personnel reminder will be given; the proceedings will be provided within 15 days after the meeting.</p>	No difference.

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Evaluation Item	Operation Status			Differences to the code of practice for corporate governance in banking industry and their causes
	Y	N	Summarized explanation	
			<p>(2) Assit the Board of Directors and Shareholders' meeting on the regulatory compliance matters for the meeting procedures and resolutions.</p> <p>(3) When independent directors have the needs to meet with internal audit officers or CPAs to understand the Bank's financial business in accordance with the Corporate Governance Code of Practice, assit in the arrangement of meetings..</p> <p>(4) Conduct the pre-registration of shareholders' meeting, issue the notices of the meeting within th statutory time limit, and the proceedings manual and proceedings in accordance with the laws and regulations.</p> <p>(5) Assist directors and independent directors in performing their duties, provide the required information and arrange for directors to pursue further studies.</p> <p>(6) The implementation status for 2018 is as follows: Associate Vice President Chien-Ko Yang participated in the six hour course on November 26, 2018 namely "The Dvelopment Trend and Prevention of Corporate Corruption-From the perspective of Corporate Governance" and "The External Control Structure and practical operation of anti money-laundering" hosted by Taiwan Securities and Trade Association.</p>	
4. Does the bank establish a communication channel with interested parties (including but not limited to shareholders, employees, customers, etc.)?	V		The Company 'website (About King's Town Bank/ Interested Parties) has setup a contract window for interested parties, interested parties may fully reflect their opinions with the disclosed service channels or all business units of the Bank, the communication channel is quite smooth.	No difference.

Evaluation Item	Operation Status			Differences to the code of practice for corporate governance in banking industry and their causes
	Y	N	Summarized explanation	
<p>5. Information disclosure</p> <p>(1) Does the bank set up a website to expose the financial business and corporate governance information of the Bank?</p> <p>(2) Does the bank adopt other methods of information disclosure (such as setting up an English website, designating a person to be responsible for the collection and disclosure of company information, implementing the spokesperson system, and placing the company website during the legal person briefing process)?</p>	V		<p>(1) The Bank has disclosed financial and business-related information on the company's website and disclosed relevant information such as corporate governance.</p> <p>(2) The Bank's investor relations on the company's website exposes Chinese and English financial information, legal person briefing materials and processes, and has a spokesperson system and internal major information processing procedures, and sets up the English version of Investor Relations for foreign countries. Investors understand the relevant information.</p>	<p>(1) No difference.</p> <p>(2) No difference.</p>
<p>6. Does the bank have other important information that helps to understand the operation of corporate governance (including but not limited to employee benefits, employee care, investor relations, stakeholder interests, director and supervisor training, risk management policies and risk metrics) The implementation situation, the implementation of customer policies, the situation of banks purchasing liability insurance for directors and supervisors, donations to political parties, interested parties and public welfare organizations, etc.)</p>	V		<p>(1) The Bank considers basic human rights for employee appointments, excludes gender restrictions and employs disabled people and Aboriginal people. In addition, the head office has a labor-management meeting and a staff welfare committee, which are appropriately reflected in the employees' rights and have been coordinated and improved.</p> <p>(2) In order to motivate employees, have centripetal spirit on the company and encourage employees to save money, on 2009.12.2 The Board of Directors establishes a staff welfare savings trust system and allocated a fixed amount to benefit employees.</p> <p>(3) The Bank sets up the main responsible person (Chairman, Independent Director, President, Chief Auditor) e-mail address on the company's website, except for the regularly reporting to the Board of Directors for the key suggestions of the investors, for supplier relationships and stakeholders. Smooth communication channels help maintain the rights of all stakeholders.</p> <p>(4) On May 14, 2018, the Bank revised the "Measures for Performance Evaluation of the Board of Directors and Functional Committee of King's Town Bank" to include the functional committee in the scope of performance evaluation. The performance evaluation covers five major prospects such as "the degree of participation in the operation of the</p>	<p>(1) No difference.</p> <p>(2) No difference.</p> <p>(3) No difference.</p> <p>(4) No difference.</p>

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Evaluation Item	Operation Status			Differences to the code of practice for corporate governance in banking industry and their causes
	Y	N	Summarized explanation	
			Bank” and “Enhance the board of directors/committee decision-making quality, "board/committee composition and structure", "director/committee selection and continuing education", and "internal control". The performance evaluation results of the Board of Directors and all functional committees for the year 2018 were “excellent” and were reported by the Board of Directors on February 25, 2010.	
7. Please explain the improvement of the company's corporate governance evaluation results issued by the Corporate Governance Center of the Taiwan Stock Exchange Co., Ltd., and propose priority enhancements and measures for those who have not yet improved: the results of the fourth corporate governance evaluation of the Bank is ranked as top 5% of the listed company's and have improved the unscoring part. In 2018, they have obtained the ISO50001 energy management system certification. In the future, they will insure the directors' liability insurance for all directors.				

(e) Composition, responsibilities and operation of the remuneration committee

1. Data of the members in the remuneration committee

Identity	Criteria Name	Whether has more than five years of work experience and the following professional qualification (Note 1)			In line with independence condition (Note 2)								Concurrently acting as member of remuneration committee in other public listed companies
		1	2	3	1	2	3	4	5	6	7	8	
Convener/ Independent director	Ming-Tai Chen			√	√	√	√	√	√	√	√	√	None
Independent director	Chao-Long Chen			√	√	√	√	√	√	√	√	√	None
Independent director	Hong-Liang Jiang			√	√	√	√	√	√	√	√	√	None
Director	Chin-Chung Chuang			√	√	√	√	√	√	√	√	√	None

Note 1 : With more than five years work experiences and professional qualification items are as follows:

- (1) Commerce, legal, finance, accounting or banking business related departments with more than instructor level in public or private colleges and universities.
- (2) Judges, prosecutors, lawyers, accountants or other professional and technicians which required national exam to qualify the profession.
- (3) Work experiences in commerce, legal, finance or bank business.

Note 2 : If the directors and supervisors meet the following conditions during the two years prior to the election and during the term of office.

Please place“√”in the space below each condition code.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not being directors and supervisors in the related enterprises of the Bank (except for independent directors set up by the Bank or its parent company or subsidiaries in accordance with the Security Exchange Act or local State laws).
- (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 one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
- (4) Not A spouse, or relative within the second degree of kinship, or lineal relative within the third 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 five percent or more of the total number of issued shares of the company or of a corporate shareholder that ranks among the top five in shareholdings.
- (6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
- (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 company or to any affiliate of the company.
- (8) There is no situation meet the conditions listed in Article 30 of the Company Act.

2、Operation Status of the remuneration committee

- (1) There are four people in the Bank's remuneration committee.
- (2) The term for this committee members: 2017.05.26 to 2020.05.16, in the most recent year (2018), the remuneration committee had five committee meeting (A), the qualification of the members and the attendance situation are as follows:

Title	Name	Actual number of attendance (B)	Delegate attendance	Actual attendance rate(%) (B/A)	Note
Convener	Ming-Tai Chen	5	0	100%	2017.05.26 took office, should attend five times.
Committee Member	Chao-Long Chen	4	1	80%	2017.05.26 took office, should attend five times
Committee Member	Chin-Chung Chuang	3	0	100%	2018.06.11 took office, should attend three times
Committee Member	Hong-Liang Jiang	0	0	-	2018.11.12 took office · should attend 0 time
Committee Member	Chih-Chieh Hsu	1	1	50%	2018.05.16 resign, should attend two times

Other matters required to be recorded :

- 1、Remuneration committee's discussion items and resolution results and the company's processing to the opinion of the members:

Remuneration Committee	Content of the motion and follow-up process	Resolution results	Company's handling to the opinions of the remuneration committee
4 th meeting of the 3 rd Board of Directors 2018.02.26	Discuss on the employees and director's remuneration distribution for 2017	All members of the committee agreed to adopt	Submitted to the Board of directors and approved by all attending members
	In order to motivate employees and enhance employee's royalty to the company, allow employees to subscribed to the Bank's treasury stocks bought back in the open market for the 12 th time. Discussion on the treasury stocks open for employee subscription case, each employee may subscribe 1000 shares.	All members of the committee agreed to adopt	Submitted to the Board of directors and approved by all attending members
	Discussion on the planning rewarding plan for the remaining shares in the 12 th bought treasury stock back (it is estimated to be about 4,040,000 shares, and the averaged buy back price is 25.93 NT dollars).	All members of the committee agreed to adopt	Has handled related work according to the resolution
	Approve the unit and personal performance evaluation result for the unit chiefs and managerial personnel for 2017.	All members of the committee agreed to approve for reference	Has handled related work according to the resolution
5 th meeting of the 3 rd board of directors 2018.03.26	Discussion on the salary adjustment case for vice president level (including) and above supervisors for 2018, and has asked vice president to excuse himself from the discussion to avoid conflict of interest according to regulations.	All members of the committee agreed to adopt	Has handled related work according to the resolution
	Discussion on the manager salary adjustment for 2018	All members of the committee agreed to adopt	Has handled related work according to the resolution
6 th meeting of the 3 rd board of directors 2018.07.09	In order to motivate employees and enhance employee's royalty to the company, discussion on the second time to allow employees to subscribed to the Bank's treasury stocks bought back in the open market for the 12 th time.	All members of the committee agreed to adopt	Has handled related work according to the resolution

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7 th meeting of the 3 rd board of directors 2018.08.06	Review and evaluate other banks' director and president remuneration and the company's operation performance ranking in 2017	All members of the committee agreed to adopt	Has handled related work according to the resolution
	Approve the unit and personal performance evaluation result for the unit chiefs and managerial personnel for the first half of 2018.	All members of the committee agreed to adopt	Has handled related work according to the resolution
8 th meeting of the 3 rd board of directors 2018.11.12	Approve for reference on other banks' director and president remuneration and the company's operation performance ranking in 2017	All members of the committee agreed to approve for reference	Has handled related work according to the resolution
	Approve for reference for the Bank's "Regulation for Employee Year-end performance evaluation" and the "Issuing method for employees' year-end bonus"	All members of the committee agreed to approve for reference	Has handled related work according to the resolution

2、If the Board of Directors does not adopt or amend the recommendations of the Remuneration Committee, it shall state the date and time of the Board of Directors, the content of the proposal, the results of the resolutions of the Board of Directors and the handling of the opinions of the Bank on the Remuneration Committee (eg the salary remuneration approved by the Board of Directors is better than the Remuneration Committee) The recommendations should state the difference and the reasons): None.

3、The resolutions of the Compensation and Remuneration Committee, if members have objections or reservations and have a record or written statement, shall state the date, period, content of the proposal, the opinions of all members and the treatment of the members' opinions: None.

3、Scope of responsibilities of the remuneration committee

The committee shall exercise due diligence and faithfully perform the following functions, and submit the recommendations to the Board of Directors for discussion:

- (1) Review this procedure regularly and propose amendments.
- (2) Establish and regularly review the annual and long-term performance objectives and salary remuneration policies, systems, standards and structures of the directors and managers of the Company.
- (3) Regularly assess the achievement of the performance targets of the directors and managers of the company and determine the content and amount of their individual salary remuneration.

When the Committee performs the above functions and powers, it shall be based on the following principles:

- (1) Ensure that the company's salary compensation arrangements are in compliance with relevant laws and regulations and are sufficient to attract talents.
- (2) The performance appraisal and salary remuneration of directors and managers should refer to the normal level of the peers, and consider the time invested by the individual, the responsibilities, the achievement of personal goals, the performance of other positions, and the company's recent positions in the same position. The remuneration of the employees, and the achievement of the company's short-term and long-term business objectives, the company's financial status, etc., assess the relevance of individual performance to the company's operating performance and future risks.
- (3) Directors and managers should not be led to engage in behaviors that exceed the company's risk appetite in pursuit of salary compensation.
- (4) The ratio of dividends to short-term performance of directors and senior managers and the payment time of some changes in salary compensation should be determined by considering the characteristics of the industry and the nature of the company's business.
- (5) Members of the Committee shall not participate in the discussion and voting of their personal salary remuneration decisions.

The salary remuneration referred to in the preceding two items includes cash remuneration, stock options, dividend share, retirement benefits or resignation benefits, various allowances and other measures with substantial rewards; the scope shall be in accordance with the guidelines for the record of the annual report of the public company. The remuneration of the directors and managers is the same.

(f) Composition, responsibilities and operations of Corporate governance and nomination committee

1、Data of the members in the Corporate Governance and Nomination Committee

In order to improve the nomination system for the members in the Board of Directors and senior managers of the Company, the Board, on November 13, 2017, passed the resolution to establish the “Corporate Governance and Nomination Committee”. According to the organization rules of the corporate governance and nomination committee, the committee is composed of at least three directors by nomination within the board with the participation of more than half of the independent directors. At present, the Corporate Governance and Nomination Committee consists of three independent directors and one director, the details are in the following table:

Title	Identity	Name
Convener	Independent director	Ming-Tai Chen
Committee Member	Vice President	Chiung-Ting Tsai
Committee Member	Independent director	Chao-Long Chen
Committee Member	Independent director	Hong-Liang, Jiang

2、Power and responsibilities of the Corporate Governance and Nomination Committee

This Committee is acting under the authorization of the Board of Directors, it should exercise due diligence in exercising power and faithfully perform the following functions and submit the suggestions to the Board of Directors for decision and decision:

- (1) To develop the standards for the knowledge, skills, experience and gender required by board members and senior managers with diversified background and independency, and to seek, review and nominate candidates for directors and senior managers.
- (2) To construct and develop the organizational structure of the board of directors and committees, to conduct performance evaluations of the board of directors and committees, and to assess the independence of independent directors.
- (3) To review and regularly review the director's progress plan and the succession plan for directors and senior managers.
- (4) Analyze, implement, and plan recommendations of the corporate governance system and periodic review of corporate governance guidelines and related regulations.
- (5) Review of the effectiveness of the implementation of the corporate governance system.
- (6) Formulation and supervision of the integrity management policy and prevention of dishonesty.
- (7) Setting up corporate social responsibility policies, systems or related management policies.
- (8) Supervise the execution and implementation of corporate social responsibility issues.

3、Operation status of the Corporate Governance and Nomination Committee: 4 meetings were called in 2018, and the average attendance rate is 92.3%, the detailed execution situation is as follows:

- (1) To amend the Bank’s “Integrity Operation Procedures and Conduct Guidelines” and amend the relevant provisions of the Bank’s current “Whistleblowing system”.
- (2) Amend the “Measures for Performance Evaluation of the Board of Directors and Functional Committees of King’s Town Bank” to include functional committees in the scope of performance evaluation
- (3) Amend the "Organizational Regulations of the Corporate Governance and Nomination Committee", and set the Corporate governance and nomination committee as the dedicated unit for corporate social responsibility.
- (4) Establishing the “Human Rights Policy of King’s Town Bank Co., Ltd.” to protect the basic human rights of all colleagues and interested parties.

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(g) Fulfilling Social Responsibility

Evaluation Item	Operation Status			Differences and Causes of Corporate Social Responsibility Codes with other listed companies
	Y	N	Summary	
1. Implementing Corporate Governance				
(1) Does the bank have a corporate social responsibility policy or system and review the implementation effectiveness?	V		(1) In order to implement corporate social responsibility and promote the balance of economic, social and environmental ecology and sustainable development, the Bank has a “Code of Practice for Corporate Social Responsibility” and a Corporate Social Responsibility Report to exhibit the Bank's social responsibility. Situation and placed on the website of the Bank.	(1) No difference.
(2) Does the bank regularly hold social responsibility education training?	V		(2) The Bank provides educational and training information to the Directors at all times to meet the requirements of the “Implementation Points for Continuous Training of Directors and Supervisors of Listed Companies” to enhance the professional functions of the Directors and to announce their participation in the training information at public information observatories. The Bank's education and training courses include social responsibility related content, and timely dispatch personnel to participate in external training courses on corporate social responsibility.	(2) No difference.
(3) Does the bank setup a special (part-time) unit for promoting corporate social responsibility, and whether the board of directors authorize the high-level management to report the situation to the board of directors?	V		(3) In order to fulfill corporate social responsibility and implement sustainable development, the Bank has designated the Corporate Governance and Nomination Committee as the corporate social responsibility supervision unit and has a Corporate Social Responsibility Working Group with the Vice Chairman as the convener. The Headquarters Operations Management Department is responsible for formulating and reviewing CSR policies, systems and management policies, and organizing and planning the activities of the head office and various business units for social responsibility. Report, submitted to the Board of Directors after discussion by the Corporate Governance and Nominating Committee.	(3) No difference.
(4) Does the bank have a reasonable salary remuneration policy, and combine the employee performance appraisal system with the corporate social responsibility policy, and	V		(4) The Bank has a “Working Rules for Employees in King’s Town Banks”, which sets clear criteria for rewards and punishments for employees' ethical attitudes and violations of corporate ethics or bribery and greed. The results of rewards and punishments are listed as assessment and evaluation items, and annual assessment	(4) No difference.

Evaluation Item	Operation Status			Differences and Causes of Corporate Social Responsibility Codes with other listed companies
	Y	N	Summary	
establish a clear and effective reward and disciplinary system?			results are based on the annual assessment of the staff. As a standard for salary, it can effectively encourage employees to implement corporate ethics and social responsibility.	
2. Develop sustainable environment				
(1) Is the bank committed to improving the efficiency of the use of resources and using recycled materials that have a low impact on the environmental load?	V		(1) In response to the government's energy-saving campaign, employees are encouraged to promote recycling of recycled paper, use used envelopes to transfer internal documents, implement double-sided printing, rent machines with power-saving mode functions, and purchase environmental labels. Supplies to slow down global warming and reduce operating costs.	(1) No difference.
(2) Does the bank establish a suitable environmental management system based on its industrial characteristics?	V		(2) In order to implement energy conservation, the Bank has a "Handbook of Environmental Protection Codes", which compares the energy consumption (water, electricity, etc.) of each business unit with a semi-annual review of the increase and decrease compared with the same period of last year, and for abnormal branches. Inspections to implement appropriate environmental management. The headquarters building has obtained ISO 50001 energy management system certification.	(2) No difference.
(3) Does the bank pay attention to the impact of climate change on operational activities, and implement greenhouse gas inventory, formulate corporate energy conservation and carbon reduction and greenhouse gas reduction strategies?	V		(3) As the power is the bulk of the Bank's energy use, energy-saving plans are formulated for lighting equipment, air-conditioning equipment, computer room and elevator equipment, and the annual electricity saving rate is set at 1.5%. The specific operation is as follows: 1. Newly set up and replace the old lighting equipment, fully adopt energy-saving T5 or LED lamps. 2. Air-conditioning adopts variable frequency high-power main engine, which uses constant temperature control device, and stipulates that the average indoor air-conditioning temperature should not be lower than 26 degrees Celsius. 3. Adjust the space configuration and re-routing of the computer room to improve the energy efficiency of the equipment room. 4. According to the seasonal time of the sunshine, set the opening and closing time of the signboard to reduce carbon energy.	(3) No difference.

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Evaluation Item	Operation Status			Differences and Causes of Corporate Social Responsibility Codes with other listed companies
	Y	N	Summary	
3. Maintain Social Welfare				
(1) Does the bank formulate relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	V		(1) The Bank recognizes and supports the spirit and basic principles of human rights protection as enshrined in international human rights conventions such as the Universal Declaration of Human Rights, the Global Covenant and the ILO Declaration on Fundamental Principles and Rights at Work. There is a “Human Rights Policy of King’s Town Bank.” to protect the basic human rights of all colleagues, clients and stakeholders.	(1) No difference.
(2) Does the bank establish an employee complaint mechanism and feedback channel and handle it properly?	V		(2) The Bank has established an employee complaint mechanism and channel and properly handled it.	(2) No difference.
(3) Does the bank provide a safe and healthy working environment for employees and regularly implement safety and health education for employees?	V		(3) The Bank regularly organizes health check-up activities to safeguard the physical and mental health of employees. Regular self-defense and firefighting seminars are held to strengthen employees' firefighting and self-defense related knowledge. Conduct CPR cardiopulmonary resuscitation teaching to improve staff first-aid knowledge and skills.	(3) No difference.
(4) Does the bank establish a mechanism for regular employee communication and notify the operational changes that may have a significant impact on employees in a reasonable manner?	V		(4) The Bank regularly holds a meeting of the Bank. In addition to the general business report, all units have reported relevant discussions (including employee response items) during the meeting, and if there are operational changes that may have a significant impact on employees, the general manager announced at the meeting and emailed the minutes of the meeting to all employees after the meeting.	(4) No difference.
(5) Does the bank establish an effective career development training program for employees?	V		(5) The Bank handles the training courses for new recruiters, assignments and operation supervisors according to different positions and qualifications of employees, and assigns relevant personnel to participate in various professional courses of external institutions or hire external professional lecturers to teach classes to enhance professional development. Skills and knowledge build the ability to help employees develop their careers.	(5) No difference.
(6) Does the bank formulate relevant consumer protection policies and grievance procedures for research and development,	V		(6) The Bank has “Guidelines for Consumer Protection of King’s Town Bank” and “Guidelines for Handling Customer Appeals Cases”, specifying the measures to be implemented for consumer protection policies, and designating special units to	(6) No difference.

Evaluation Item	Operation Status			Differences and Causes of Corporate Social Responsibility Codes with other listed companies
	Y	N	Summary	
procurement, production, operations and service processes? (7) Does the bank comply with relevant regulations and international standards for marketing and labeling of products and services?	V		examine the effectiveness of consumer protection mechanisms. Report to the board of directors on a regular basis. (7) The Bank's marketing and labeling of products and services are subject to the relevant laws and regulations of the competent authorities and international standards.	(7) No difference.
(8) Before the bank conduct business with a supplier, did they assess whether the supplier had any record of affecting the environment and society in the past?	V		(8) The Bank has a "Supplier Management Approach" and has set out in the contract to ensure that manufacturers should be committed to the human rights and ethics of the labor and environmental safety and health management, and strive to do their utmost for the environment.	(8) No difference.
(9) Does the contract between the bank and its major suppliers includes the term that when suppliers who violate their corporate social responsibility policies and have significant environmental and social impacts, the Bank may terminate or terminate the terms of the contract at any time?	V		(9) If the contractor or its supplier has a negative social image during the procurement process, the bank will notify the manufacturer of the description and improvement, and the Bank may terminate or terminate the contract at any time when it has a significant impact on the environment and society.	(9) No difference.
4. Strengthen Information Disclosure Does the bank disclose information about corporate social responsibility that is relevant and reliable on its website and public information observatories?	V		The Bank has set up a "Corporate Social Responsibility" section on the company's website to expose information on corporate social responsibility.	No difference.
5. If the Bank has its own code of corporate social responsibility in accordance with the "Code of Practice for Corporate Social Responsibility of Listed Companies", please describe the difference between its operation and the code: The Bank is based on the "Code of Practice for Corporate Social Responsibility of Listed Companies" "to formulate the Code of Practice for Corporate Social Responsibility of King's Town Bank to implement corporate social responsibility and has no difference from the code.				
6. Other important information that helps to understand the operation of corporate social responsibility: The Bank also fulfills its corporate social responsibilities in terms of social participation, environmental sustainability, customer service, etc, and driven by "financial education promotion", "green finance" and "customer digital service re-evolution" to contribute the Bank's efforts in corporate social responsibilities. Please refer to page 48 of the 2018 Annual Report "V. Operation Overview - III , corporate responsibility and ethical behavior." In 2018, the Bank passed the certification of ISO 50001 energy management system to promote the rational and effective use of energy, eliminate energy waste, and implement energy management in life, in order to comply with the international trend of corporate governance principles and practices, and won the fourth The corporate governance appraisal of the top 5% of the listed companies				

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Evaluation Item	Operation Status		Summary	Differences and Causes of Corporate Social Responsibility Codes with other listed companies
	Y	N		
			and the 2018 Taipower SMEs non-manufacturing energy-saving competition A-level award.	
7.			If the company's corporate social responsibility report has passed the verification criteria of the relevant certification body, it should be stated: 2017 Corporate Social Responsibility Report has been certified by SGS Taiwan Ltd. to comply with the core options of GRI Standards.	

(h) Situation of the Bank’s fulfillment in ethical corporate management best practice principles and measures adopted

Evaluation Item	Operation Status			Differences and causes to the Ethical Corporate Management Best Practice Principles of the publicly listed company
	Y	N	Summary explanation	
<p>1. Define ethical corporate management best practice policies and plans</p> <p>(1) Whether the Bank expresses its ethical corporate management best practice in its regulations and external documents, and whether the board of directors and management are actively implementing the operating policies and promises?</p> <p>(2) Whether the bank has set up plans to prevent dishonesty, and clarifies operating procedures, behavior guidelines, disciplinary and grievance systems in each program, and implements those plans?</p> <p>(3) Whether the Bank takes preventive measures to prevent the items listed in paragraph 2 of Article 7 in Ethical Corporate Management Best Practice Principles for public listed companies or other operation scope which might have higher risk of dishonest actions?</p>	V		<p>(1) The Bank has an “Ethical Corporate Management Best Practice Principles” and clearly stating that “directors, managers, employees or persons with substantial control capabilities may not engage in dishonest conduct in the course of engaging in commercial activities.</p> <p>(2) The Bank has established “Ethical Corporate Management Best Practice Guidelines of King’s Town Bank Co., Ltd.”, to prevent dishonest behaviors.</p> <p>(3) The Bank adheres to the principle of ethical corporate management best practice policies, operates in a stable and decent manner, does not engage in business activities with high risk of dishonesty in the business scope, and strengthens relevant preventive measures.</p>	<p>(1) No difference</p> <p>(2) No difference</p> <p>(3) No difference</p>
<p>2. Follow through on ethical corporate management and best practice policies</p> <p>(1) Does the Bank assess the ethical corporate management practice records of its transaction counterparties and specify the terms of ethical corporate management practice in the contracts with transaction counterparties?</p> <p>(2) Does the Bank set up a dedicated unit that is affiliated with the Board of Directors to promote ethical corporate management best practice principles, and regulatorily report to the Board of Directors about the implementation status?</p> <p>(3) Does the Bank have a policy to prevent conflicts of interests, and provide a proper presentation</p>	V	V	<p>(1) When the Bank conduct business activities, it does not conduct transactions with persons who have dishonest records, and would add the ethical corporate management practice term to business contracts.</p> <p>(2) The “Corporate Governance and Nomination Committee” of the Board of Directors is appointed by the Bank as the dedicated unit to assist in integrating integrity and ethical values into the company's business strategy, and to comply with the statutory system to ensure relevant measures to ensure integrity management, and report to the Board of Directors on a regular basis each year.</p> <p>(3) The Bank posted the email address of the Chairman, President and Chief Auditor in the Bank’s website for</p>	<p>(1) No difference</p> <p>(2) No difference</p> <p>(3) No difference</p>

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<p>channel and follow through on the execution?</p> <p>(4) Whether the Bank has established an effective accounting system, internal control system, and the internal audit unit check regularly on ethical corporate management practices, or entrusted the CPAs to perform the audit?</p> <p>(5) Whether the Bank regularly host internal/external education training for ethical corporate management practices?</p>	<p>V</p> <p>V</p>	<p>contacting and presenting issues to the management.</p> <p>(4) The Bank does follow “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” to establish internal control system, and use independent audit department to be in charge of audit to ensure the design of the system and the continuous effectiveness of the execution.</p> <p>(5) The Company regularly organizes relevant education and training on integrity management, the related courses including “whistleblowing system”, “internal major information processing procedures and M&A information disclosure self-regulation”, “financial services industry fair hospitality principle”, “Money Laundering and Anti-Terrorist financing Acts” and the Personal Data Protection Act, and conduce regulatory compliance training on a monthly basis. As of 2018/12/31, there were 18,213 people trained, totaling 18,671 hours of training.</p>	<p>(4) No difference</p> <p>(5) No difference</p>
<p>3. The operation status of the Bank’s whistle-blowing system</p> <p>(1) Whether the Bank has setup concrete whistle-blowing and reward system, and build up convenient reporting channels, and assign proper and dedicated personnel to be in charge of accepting the reports?</p> <p>(2) Does the bank have established the investigation standard operating procedures and related confidentiality mechanisms for accepting the report?</p> <p>(3) Does the bank take measures to protect the prosecutor from improper handling due to the report?</p>	<p>V</p> <p>V</p> <p>V</p>	<p>(1) The Bank incorporates integrity management into employee performance appraisal and provides a convenient and convenient reporting pipeline. Employees can respond to various management levels through multiple channels, and then transfer to the responsible unit according to the relevant operational procedures of the Bank.</p> <p>(2) After receiving the report mail, the principal person in charge of the matter in the Bank will assign a special person to investigate and deal with it, and keep the relevant informants and the contents of the report strictly confidential.</p> <p>(3) The Bank provides comprehensive protection to the whistle-blower from improper disposal.</p>	<p>(1) No difference</p> <p>(2) No difference</p> <p>(3) No difference</p>

4. Strengthen Information Disclosure Does the Bank expose its content of the ethical corporate management best practice policies in market observation post system, and disclose its achievement?	V	The Bank has disclosed the content of its ethical corporate management best practice polices and execution status in the Company website.	No difference
5. If the Bank has followed “Ethical Corporate Management Best Practice for TWSE/GTSM listed companies” and set its own Ethical corporate Management Best Practice, please describe whether there are any differences between the principles and the operation in the Bank: No Difference.			
6. Other important information that might assist in understanding the operation status of Bank ethical corporate management best practice: None.			

- (i) Corporate Governance Principle and inquiry method for relevant regulations
Please check Market Observation Post System and check corporate governance section (website: <http://mops.twse.com.tw/mops/web/index/>) or the Bank’s website
- (j) More informations about the Bank’s corporate governance
Please check Market Observation Post System (website: <http://mops.twse.com.tw/mops/web/index/>) or the Bank’s website (<https://customer.ktb.com.tw/new/>) [About King’s Town Bank](#).
- (k) Execution Status of Internal Control System
1、 Management’s Reports on Internal Control

King’s Town Bank Statement on Internal Control System

Hereby represent King’s Town Bank to announce that the Bank has firmly complied with the regulations in “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” in establishing internal control system between January 1, 2018 and December 31, 2018, and perform risk management, and the Bank is also audited by independent auditing department with the audit results regularly reported to the Board of Directors and Audit Committee, for the concurrent operation of security business part, follow the judgement items for the effectiveness of internal control system as stipulated in “Regulations Governing the Establishment of Internal Control System by Service Enterprises in Securities and Futures Markets” to judge whether the design and execution of internal control system is effective. After careful evaluation, in this year, all units’ internal control and regulatory compliance situation could all effectively carried out except those items listed in the attachment; This Statement is an integral part of the Bank’s annual report for the year 2018 and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Article 20, 32, 171, and 174 of the Securities and Exchange Act.

To
Financial Supervisory Commission

Declarant

Chairman:

President:

Chief Auditor:

Head Office Regulatory Compliance Officer: 尤其偉

蔡明乙
張日政
白素竹

February 25, 2019

Matters should be strengthening and the Improvement Plan for the Internal Control System in King's Town Bank

(Base Date : 2018.12.31)

Matters should be strengthened	Improvement Measures	Predetermined Completion Time
Please strengthen the risk management on stock mortgage financing	<ol style="list-style-type: none"> 1. Add and revise the "Measures for the Evaluation of the mortgaged collaterals", and clearly define concrete checking and verification measures for unlisted stocks and their scope of mortgage and the highly mortgaged stock financing cases. 2. Amend the "Measures for the Implementation of Exceptional Approval Cases" and clearly regulate the exception management of stock mortgage ratios 3. Amendments to the "Points for Credit Review" and "Measures for the Treatment of Stock Guaranteed Financing" have clearly defined the frequency of periodic review and the response measures when the value of stock collateral is insufficient. 4. The time schedule for adjustment and improvement of high-mortgage ratio stock financing cases has been drawn up. 5. Present the status of stock mortgage financing cases every six months to the Board of Directors for reference. 	It was reported to the competent authority on January 24, 2019, and the time schedule for improvement was adjusted in accordance with the proposed adjustments, and the actual operation of the credit-granting cases was handled to reduce the credit risk of such cases.

2、 If the Company is entrusting the CPA to check the internal control system, it should disclose the CPA examination report:

King's Town Bank Co. Ltd.
Execution Report for CPA Bank Audit Negotiation Procedure

To: King's Town Bank Co. Ltd.

The accuracy of the financial reports and documents reported to the competent authority for 2018 by King's Town Bank, the implementation status of the Bank's internal control and regulatory compliance system, the appropriateness of the allowance for bed debt policy have been checked by the accounting firm according to the procedure previously negotiated. For such procedure, the Bank has the final call, whether it is enough, I do not have any opinion. This task is conducted and executed in accordance with Article 34 of Audit Reporting, "The Execution of Financial Information Negotiation Procedure", the purpose is to assist the Bank in evaluating its compliance to the regulations in "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" enacted by the Financial Supervisory Commission, the compliance to above regulation is the responsibilities of the management of the Bank. The procedure executed by the CPA and the facts found are listed and reported in the attachment.

Since the CPA does not audit in accordance with generally accepted audit principles, hence, the CPA does not provide any degree of assurance to the accuracy of the financial reports and documents reported to the competent authority, the implementation status of the Bank's internal control and regulatory compliance system, the appropriateness of the allowance for bed debt policy. If the CPA perform extra procedures or audit according to generally accepted audit principles, then other facts that should be reported might be found.

This report is only provided to the Bank in the purpose indicated in paragraph 1, and it should not be used for other purpose or delivered to other people.

Ernst & Young

CPA: 

March 29, 2019

(l) In the past two years up to the date the annual report is published, incidents which the Bank receive punishment and the key problems and improvement status:

1、If the person in charge or the staff of a Bank is prosecuted by the prosecutor for business crime: a clerk was found guilty of fraud and money-laundering, and the sentence for the first instance court on 2108.12.14 was a sentence of 9 years in prison and the proceeds of crime were confiscated.

2、Those who violate the law and are fined by the Financial Supervisory Commission:

(1) The Bank was fined by the competent authority on 2017.10.26 for not building effective internal control system and follow through on the system in the amount of six million NT dollars for its business department's ex-wealth management agent's misappropriation of client funds on the ground this violate the regulation set forth in paragraph 1 of Article 45-1 of the Banking Act, and according to the regulations in paragraph 1 to 3 of Article 61-1 of the same Act, the business department was prohibited from accepting new customers conducting money trust and cooperation in selling insurance products (not including the insurance products related to housing mortgage loans) for three months and the competent authority also order the termination of employment with the clerk.

【Improvement measures】 The Bank has completed the improvement of relevant internal control systems such as deposit and withdrawal, counter operations, wealth management agent product selling, remittance of mail orders and job rotations, and was approved by the Board of Directors on January 22, 2018. In January 23, 2018, improvement was reported to the competent authority.

(2) In 2017, the Financial supervisory commission has found some issues in the full-scope examination of the Bank, it found the Bank violating the Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract by Trust Enterprise, anti-money-laundering act and Regulations for financial industry to ensure financial products or service meet the needs of financial consumers, and the Bank was fined for two million NT dollars:

① The examination items before the listing of financial products are incomplete, according to the regulation in Article 57 of Trust Enterprise Act, the Bank was fined 1.2 million NT dollars.

② There are two large-value currency transactions, which have not been reported to Investigation Bureau of the Ministry of Justice. According to the regulations in paragraph 3 of Article 7 of the Money Laundering Control Act, the Bank was fined 200,000 NT dollars.

③ After the clerk conducted investment risk questionnaire for customers outside the Bank, the clerk did not confirm with the customer about the evaluation result, and accept the customer to buy financial products, the Bank is fined 600,000 NT dollars according to the regulations in Article 30-1 of the Financial consumer protection act.

【Improvement measures】 The Bank has modified relevant regulations, controlling program and operation procedures, current operations have all complied with the regulations. ①Clearly define that before the IPO fund is introduced to the customer, it should be examined, and the Bank has followed the regulations to conduct examination based on the “examination item”, “contents”, and the “attached material “before the product is sold to the customers. ②The Bank has revised the controlling program and increased the number of verification items to avoid large-value currency transaction without reporting. ③The Bank has revised the KYC operation process, and the investment risk questionnaire result should be confirmed by the customer before the Bank could accept the customer to buy financial products.

3、Matters which suffered from disciplinary action by the Financial Supervisory Commission according to Article 61-1 of the Banking Act:

III. Corporate Governance

(1) same as above 2、(1)。

(2) Due to the incorrect reporting of the balance of SME loans from December 2012 to the end of March 2017, the Bank was corrected by the competent authority on September 19, 2006 in accordance with the first paragraph of Article 61 of the Banking Act.

【Improvement Measures】 The Bank has revised the relevant forms for the handling personnel to correctly determine whether the credit applicants are SMEs, in order to facilitate the correctness of the documents.

(3) The Bank sales insurance products to the staff of the Bank, but did not accurately verify the authenticity of the signature or confirm the correctness of the number of applications, so there is situation of which the branch clerk affix his/her signature in the internal documents for the selling of the insurance product on behalf of the sales supervisor, and this is found by the competent authority on January 4, 2018 and corrected by the competent authority according to the regulation in Article 61-1 of the Banking Act.

【Improvement Measure】 The Bank has required the branch supervisor to use the inquiry function of the “Insurance Policy System” to check the delivery details from time to time so as to immediately detect whether a falsified signature situation has occurred.

(4) In the full-scale examination report conducted by the Financial supervisory commission on the Bank for 2017, it found some defects on the Bank’s handling of customer anti-money-laundering risk classification and continuous monitoring operation which might hindered the sound operation of the Bank, hence the FSC correct the Bank according to the regulation in Article 61-1 of the Banking Act.

【Improvement Measure】 The Bank has revised the relevant operation specifications and procedures in accordance with the instructions of the competent authority.

- 4、 Individual or the total of individual actual loss of more than 50 million NT dollars in each year due to personnel fraud, major incidents or failure to implement safety maintenance work: None.
- 5、 Other matters that should be disclosed which were designated by the Financial Supervisory Commission: None.

(m) Important resolutions of the shareholders' meeting and the board of directors in the year 2018 up to the end of March, 2019

Unit	Date	Case	Resolution	Execution Status
Shareholders' Meeting	2018.05.17	Adoption of the 2017 Business Report	732,033,418 right approve, 22,951 right object, this case was voted and passed based on the original board proposal	Relevant reports and statements have been prepared for the competent authorities and related matters such as announcements have been done in accordance with the provisions of the Company Act and the Securities and Exchange Act.
		Adoption of 2017 Profit distribution	732,019,418 right approve, 31,951 right objects, this case was voted and passed based on the original board proposal	It is set that June 11th, 2018 as the distribution base date, and June 28, 2018 is the distribution date. (The cash dividend per share is 1.5 NT dollars.)
		Amendment of the company's Article of Association	732,033,120 right approve, 22,962 right objects, this case was voted and passed based on the original board proposal	It was approved by the Ministry of Economic Affairs on March 20, 2019 and published on the company's website.
	2018.11.02	Reelected one independent director	Newly elected independent director—Hung-Liang, Chiang and the number of approval rights are 709,215,476	It was approved by the Ministry of Economic Affairs on November 22, 2018 and published on the company's website.
Board of Directors	2018.03.26	Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Part of the departments in head offices hierarchical responsibility schedule adjustment case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Adoption of 2017 Profit distribution	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.04.30	Real estate asset procurement case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.05.28	Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Whole bank organization chart and Part of the departments in head offices hierarchical responsibility schedule adjustment case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
Board of Directors	2018.07.09	For the shares bought in the Bank's 12 th buyback of the company's shares in the open market, open for employee subscription for the second time	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Xinhua Branch Moving Case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.07.23	Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.08.06	Amendments to the Implementation Guideline for the internal control system and audit system of King's Town Bank	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Case on the Change to the Accounting head	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution

III. Corporate Governance

Unit	Date	Case	Resolution	Execution Status
		Case on the Change to Audit Office Head	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.08.20	Financial Information Service Co. Ltd reinvestment case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.09.17	2018 Reinvestment performance evaluation	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.10.15	Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.11.02	19 th buyback of the shares issued by the Company	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.11.12	Beigang Branch moving case, original building demolition and reconstruction at the same site.	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		The independence and suitability assessment of the Bank's CPAs	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.11.26	Part of the departments in head offices hierarchical responsibility schedule adjustment case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.12.10	Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2018.12.24	Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2019.01.07	Abolition of non-business office premises of the Bank's "credit business team (South 2 team)"	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		The Bank's real estate assets disposal case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2019.01.21	Set the company's cancellation of the treasury stock and the treasury stock reduction base date	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Amendments to the provisions of the Bank's "Procedure for the Acquisition or Disposal of Asset "	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
	2019.02.25	Discussion on 2018 "King's Town Bank Internal Control System Announcement"	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Make and deliver The Bank's annual financial statements and consolidated financial statements and business report for the year 2018	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution

Unit	Date	Case	Resolution	Execution Status
		Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		The company's CPAs replacement matters and their independence assessment results	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Organization chart and Part of the departments in head offices hierarchical responsibility schedule adjustment case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Adoption of 2018 Profit distribution	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
2019.03.11		Increase reinvestment to subsidiary "Fu Chen Property Insurance Agent Co. Ltd."	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		Lunbei Branch roadside two state-owned land acquisition case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
2019.03.25		Bad loans write-off case	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution
		The Bank's merger with Tainan Life Insurance Agent Co. and Fu Chen Property Insurance Agent Co. Ltd. Ltd.	The chairman of the committee consulted all the attending directors and passed without objection.	Has handled related work according to the resolution

(n) For period from 2018 to the end of March in 2019, the directors or supervisors have different opinions on the board of directors and have a written or written statement: from 2018 and up to the end of March, 2019, the directors or independent directors have no different opinions.

(o) Summary of the resignation of the persons in charge of the financial report (including the chairman, president, treasurer, accounting officer and internal audit supervisor, etc.) in the year 2018 up to the end of February, 2019:

Summary of resignation of Bank related personnel

2018.12.31

Title	Name	Report to Duty Date	Resignation Date	Resignation Reason
Chief Auditor	Yi-Liu Kung	2010.01.27	2018.08.08	Voluntarily resign
Vice President	Han Tzung Pan	2015.10.27	2018.03.15	Voluntarily resign
Accounting Officer	Jian-Ge Yang	2017.06.13	2018.08.07	Job Change

E. Information on the professional fees of the CPAs

(a) CPA Professional Fee Schedule

Name of Accounting Firm	Name of the CPAs		Auditing Period	Note
Ernst & Young	Tzu-Ren Hu	Cheng-Tao Chang	2018.01.01~2018.12.31	

Professional Fee item		Audit Fee	Non-audit Fee	Total
Amount Schedule				
1	Below 2,000,000	-	V	-
2	2,000,000 (included) ~ 4,000,000	V	-	V
3	4,000,000 (included) ~ 6,000,000	-	-	-
4	6,000,000 (included) ~ 8,000,000	-	-	-
5	8,000,000 (included) ~ 10,000,000	-	-	-
6	10,000,000 (included) above	-	-	-

III. Corporate Governance

Unit: NT \$1,000

Name of Accounting Firm	Name of the CPA	Auditing Fee	Non-Auditing Fee					CPA auditing period	Note
			System Design	Company Registration	Human Resource	Other	Total		
Ernst & Young Taiwan	Tzu-Ren Hu Cheng-Tao Chang	3,150				500	500	2018.1.1~2018.12.31	

Note: Anti money-laundering and Counter terrorist-financing project audit 500,000 NT dollars.

(b) Replacing Accounting firm and the audit professional fee paid in the replacing year is less than the audit professional fee in the previous year before the replacement: None.

(c) The audit professional fee decreased by more than 15% compared with the previous year: None.

F. Information on the replacement of accountants in the last two years and the period after the period

(a) Regarding to former CPAs: None.

(b) Regarding to successor CPAs: None.

(c) Reply of the former accountant to the first and second items of paragraph 5 of Article 10 of the Standard: None.

G. The chairman, president of the bank, the manager responsible for financial or accounting affairs, who has worked for the accountant's affiliated firm or its related business in the past year: None.

H. The directors, supervisors, managers who should declaration of equity, the transfer of equity and the change of equity pledge situation according to the regulations in Article 11 of the Regulations Governing Approvals of the Same Person's or Same related Parties' Application to Own more than a certain percentage of the Issued Voting Shares of a Bank

(a) Equity Change Situation

Unit: Shares

Title	Name	2018		The year up to February, 28, 2019	
		Shares added (reduced)	Shares added (reduced) in pledge	Number of shareholdings increased (decreased)	Number of shares pledged increased (decreased)
Chairman (Major Shareholder)	Tian Gang Investment Co. Ltd.	0	1,500,000	0	0
Legal representative of the Chairman (Major shareholder)	Chen-Chih Tai	0	0	0	0
Legal representative of the Vice Chairman	Chiung-Ting Tsai	0	0	0	0
Legal representative of director	Chin-Chung Chuang	0	0	0	0
Legal representative of director	Hsien-Tsung Wang	0	0	0	0
Independent director	Ming-Tai Chen	0	0	0	0
Independent director	Chao-Long Chen	0	0	0	0
Independent director	Hong-Liang Jiang (Report to duty date : 2018.11.02)	0	0	0	0
President	Jih-Cheng, Chang	0	0	0	0
Vice President	Chi-Wei Yu (Report to duty date : 2018.03.15)	0	0	0	0
Chief Auditor	Ching-Chu Pai (Report to duty date : 2108.10.02)	0	0	0	0
Associate Vice President	Peng-Chen Su	21,000	0	0	0
Associate Vice President	Yu Yin, Ou	9,000	0	0	0
Finance Head (Associate Vice	Chih-Jen, Wu	0	0	0	0

III. Corporate Governance

Title	Name	2018		The year up to February, 28, 2019	
		Shares added (reduced)	Shares added (reduced) in pledge	Number of shareholdings increased (decreased)	Number of shares pledged increased (decreased)
President)					
Associate Vice President	Hsueh-Ling, Chen	236,673	0	0	0
Associate Vice President	Chih-Cheng, Yu	21,000	0	0	0
Associate Vice President	Chien-Ko Yang (Report to duty date : 2018.10.02)	1,000	0	0	0
Accounting Head	Yu-Hsuan Yu (Report to duty date : 2018.08.07)	0	0	0	0
Independent Director	Chih-Chieh, Hsu (Resignation Date : 2018.05.16)	0	0	0	0
Vice President	Han-Tsung, Pan (Resignation date : 2018.03.15)	1,000	0	0	0
Chief Auditor	Yi-Lu Kung(Resignation Date : 2018.08.07)	11,000	0	0	0
Accounting Head	Chieh-Ko Yang (Resignation date : 2018.08.07)	1,000	0	0	0

(b) Equity transfer information: The counterparties of above equity transfer are not the related parties, so this item does not apply.

(c) Equity pledge information; The counterparties of above equity pledges are not the related parties, so this item does not apply.

I. Shareholders who hold top ten shareholdings, who are related to each other or relatives within the relationship of spouse, second degree kinship etc.

Shareholders who account for the top ten shareholders, their relationship with each other

Base date : 2019.02.28

Name	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Name and the relationship of the top ten shareholding shareholders who are related to each other or relatives within the relationship of spouse, second degree kinship		Note
	Shares	Ratio	Shares	Ratio	Shares	Ratio	Name	Relationship	
Mercuries Life Insurance Co. Ltd.	93,386,000	8.18%	0	0%	0	0%	No	No	
Representative of above company Hsiang-Chieh, Chen	0	0%	0	0%	0	0%	No	No	
Cheng-Chih, Tai(*)	77,824,000	6.82%	0	0%	0	0%	No	No	
Tien-Tsan, Tsai	72,752,033	6.37%	10,346,139	0.91%	0	0%	Tian Gang Investment Co. Ltd.	Spouse of the representative	
							Tian Lai Investment Co. Ltd.	Within second degree kinship with the representative	
							Hsien-Tsung, Wang Yi-Ying Chen	Relatives within second degree kinship	
Jin-Cheng Construction Co. Ltd.	46,651,000	4.09%	0	0%	0	0%	No	No	
Representative of above company Chun-Chun, Chiu	6,619,000	0.58%	0	0%	0	0%	No	No	
Tian Gang Investment Co. Ltd. (*)	39,399,025	3.45%	0	0%	0	0%	No	No	
Representative of above company Hsueh-Mei-Yun, Tsai	10,346,139	0.91%	72,752,033	6.37%	0	0%	Tien-Tsan, Tsai	Spouse	
							Hsien-Tsung, Wang Yi-Ying Chen	Relatives within second degree kinship	
							Tian Lai Investment Co. Ltd.	Within second degree kinship with the representative	
Tian Lai Investment Co. Ltd.	34,690,325	3.04%	0	0%	0	0%	No	No	
Representative of above company Yi-Ying Chen	23,756,000	2.08%	0	0%	0	0%	Tien-Tsan, Tsai	Relatives within second degree kinship	
							Tian Gang Investment Co. Ltd.	Within second degree kinship with the representative	
Sin-Ruei Investment Co. Ltd.	34,581,869	3.03%	0	0%	0	0%	No	No	
Representative of above company Yi-Li, Chuang	554,000	0.05%	0	0%	0	0%	No	No	
Hsien-Tsung, Wang(*)	29,277,882	2.57%	12,432,667	1.09%	0	0%	Tien-Tsan, Tsai	Relatives within second degree kinship	
							Tian Gang Investment Co. Ltd.	Within second degree kinship with the representative	

III. Corporate Governance

Name	Shareholdings		Spouse, minor child shareholdings		Shares held using other's name		Name and the relationship of the top ten shareholding shareholders who are related to each other or relatives within the relationship of spouse, second degree kinship		Note
	Shares	Ratio	Shares	Ratio	Shares	Ratio	Name	Relationship	
Yi-Ying Chen (*)	23,756,000	2.08%	0	0%	0	0%	Tien-Tsan, Tsai	Relatives within second degree kinship	
							Tian Lai Investment Co. Ltd.	Representative	
							Tian Gang Investment Co. Ltd.	Within second degree kinship with the representative	
Fidelity Investment Trust Fidelity Series Emerging Market entrusted by Bank of Taiwan	23,044,000	2.02%	0	0%	0	0%	No	No	

Note : (*) Those are the shareholdings reported to competent authority.

J. The number of shares held by the bank, the bank's directors, supervisors, president, vice president, associates vice president, heads of various departments and branches, and business directly or indirectly controlled by the bank in the same reinvestment business, and combined calculation of comprehensive shareholding proportion

Base Date : 2019.03.31

Reinvestment Business	The Bank's Investment		Investment direct or indirectly controlled by director, supervisor, president, vice president, associate vice president, departmental heads and the Bank		Comprehensive Investment	
	Shares	Ratio	Shares	Ratio	Shares	Ratio
Taiwan Depository & Clearing Corporation	1,349,252	0.36%	0	0%	1,349,252	0.36%
Taipei Foreign Exchange Agent Co. Ltd.	80,000	0.40%	0	0%	80,000	0.40%
Taiwan Futures Exchange	1,670,450	0.50%	0	0%	1,670,450	0.50%
Financial Information Service Co. Ltd.	6,119,158	1.17%	0	0%	6,119,158	1.17%
Tainan Life Insurance Agent Co. Ltd.	3,000,000	100%	0	0%	3,000,000	100%
Fu Chen Property Insurance Agent Co. Ltd.	300,070	100%	0	0%	300,070	100%
KTB International Leasing Co. Ltd.	55,965,000	100%	0	0%	55,965,000	100%
Taiwan Securities Exchange Co. Ltd.	3,028,031	0.44%	0	0%	3,028,031	0.44%
Yang Guang assets management Co. Ltd.	37,211	0.62%	0	0%	37,211	0.62%
Taiwan Incubator SME development Co. Ltd.	3,417,440	4.84%	0	0%	3,417,440	4.84%

IV. Fund Raising Status

IV. Fundraising Status

A. Capital and Shares

(a) Source of Capital

Base Date : 2019.03.31

Unit: Shares ; %

Year/ Month	Issuing Price	Approved Capital		Actual Paid in Capital		Note	
		Shares	Amount	Shares	Amount	Capital Source	Other
1978.01		20,000,000	200,000,000	20,000,000	200,000,000		Change the organization into a bank organization
1980.03		24,000,000	240,000,000	24,000,000	240,000,000	Shareholder bonus 30,400,000 NT dollars Special reserve 9,600,000 NT dollars	1980.06.19 Chin (69) Zen No. 19797
1981.05		30,000,000	300,000,000	30,000,000	300,000,000	Dividend 14,400,000 NT dollars · Bonus 25,200,000 NT dollars · Special reserve 20,400,000 NT dollars	1982.03.18 Chin (71)Zen No. 09006
1982.03		40,200,000	402,000,000	40,200,000	402,000,000	Appreciation Surplus 45,900,000 NT dollars · Special reserve 56,100,000 NT dollars	1982.12.17 Chin (71)Zen No. 47072
1983.10		42,500,000	425,000,000	42,500,000	425,000,000	Special reserve 23,000,000 NT dollars	1983.12.29 Chin (72) Zen No. 51587
1984.09		45,000,000	450,000,000	45,000,000	450,000,000	Special reserve 25,000,000 NT dollars	1984.11.10 Chin (73) zen No. 43814
1985.07		47,500,000	475,000,000	47,500,000	475,000,000	Special reserve 25,000,000 NT dollars	1985.09.17 Chin (74) zen No. 40767
1986.06		50,000,000	500,000,000	50,000,000	500,000,000	Special reserve 25,000,000 NT dollars	75.08.25 Chin (75) zen No. 37468
1987.07		52,500,000	525,000,000	52,500,000	525,000,000	Special reserve 25,000,000 NT dollars	1987.08.18 Chin (76) zen No. 41397
1988.05		63,000,000	630,000,000	63,000,000	630,000,000	Special reserve 105,000,000 NT dollars	1988.06.30 Chin (77) zen No. 18642
1989.06		80,000,000	800,000,000	73,080,000	730,800,000	Special reserve 100,800,000 NT dollars	1989.06.14 Chin (78) zen No. 123964
1989.11	180 dollars/ per share	80,000,000	800,000,000	80,000,000	800,000,000	Capital increase by cash 69,200,000 NT dollars	1989.12.16 Chin (78) zen No. 134390
1990.06		200,000,000	2,000,000,000	120,350,000	1,203,500,000	Additional paid-in Capital 240,000,000 NT dollars · Special reserve 160,000,000 NT dollars · Employee bonus 3.5 million NT dollars	1990.07.13 Chin (79) zen No. 115085
1991.06		200,000,000	2,000,000,000	171,500,000	1,715,000,000	Surplus and Special reserve 228,665,000 NT dollars · Additional paid-in Capital 277,835,000 NT dollars · Employee bonus 5 million NT dollars	1991.09.10 Chin (80) zen No. 1199766
1992.11		227,300,000	2,273,000,000	227,300,000	2,273,000,000	Surplus and Special reserve 274,400,000 NT dollars · Additional paid-in Capital 277,830,000 NT dollars, Employee bonus 5.77 million NT dollars	1992.09.14(81) Tai Chi Zen (One) No. 02348
1993.08		270,000,000	2,700,000,000	270,000,000	2,700,000,000	Surplus and Special reserve 281,232,000 NT dollars · Additional paid-in Capital 144,768,000 NT dollars, Employee bonus 1 million NT dollars	1993.05.17(82) Tai Chi Zen (One) No. 01649
1994.03	54 dollars/ per share	335,000,000	3,350,000,000	335,000,000	3,350,000,000	Surplus 390,415,000 NT dollars · Additional paid-in Capital 9,585,000 NT dollars · Capital increase by cash 250,000,000 NT dollars	1994.07.05(83) Tai Chi Zen (One) No. 28035
1995.03	43 dollars / per share	440,130,000	4,401,300,000	440,130,000	4,401,300,000	Capital increase by cash 100,000,000 NT dollars · Surplus 599,204,000 NT dollars · Additional paid-in Capital 332,096,000 NT dollars · Employee bonus 20 million NT dollars	1995.06.10(84) Tai Chi Zen (One) No. 31862
1996.10		545,762,200	5,457,622,000	545,762,200	5,457,622,000	Surplus 624,985,000 NT dollars · Additional paid-in Capital 431,327,000 NT dollars	1996.07.12(85) Tai Chi Zen (One) No. 41979
1997.11		646,727,022	6,467,270,220	646,727,022	6,467,270,220	Surplus 578,507,000 NT dollars · Additional paid-in Capital 431,151,000 NT dollars	1997.08.16(86) Tai Chi Zen (One) No. 65313
1998.12		724,334,265	7,243,342,650	724,334,265	7,243,342,650	Surplus 523,849,000 NT dollars · Additional paid-in Capital 252,223,000 NT dollars	1998.09.15(87) Tai Chi Zen (One) No. 79377
2005.10	10.7 dollars/ per share	1,800,000,000	18,000,000,000	1,084,334,265	10,843,342,650	Capital increase by cash 3.6 billion NT dollars.	2005.08.15(94) Kin kun zen yi zi No. 0940132082
2008.11		1,800,000,000	18,000,000,000	1,069,334,265	10,693,342,650	Write-off treasury shares 150,000,000 NT dollars	2008.09.17(97) Kin kun zen san zi No. 0970050338 2008.10.20(97) Kin kun zen san zi No. 0970055145

IV. Fund Raising Status

Year/ Month	Issuing Price	Approved Capital		Actual Paid in Capital		Note	
		Shares	Amount	Shares	Amount	Capital Source	Other
2008.12		1,800,000,000	18,000,000,000	1,051,234,265	10,512,342,650	Write-off treasury shares 181,000,000 NT dollars	2008.12.15(97) Kin kun zen san zi No. 0970068208
2013.03	10 dollars / per share	1,800,000,000	18,000,000,000	1,201,234,265	12,012,342,650	Private equity convertible financial bonds converted into equity 1,500,000,000 NT dollars	2013.04.01(102) Chin so zen No. 10201059550
2016.02		1,800,000,000	18,000,000,000	1,164,234,265	11,642,342,650	Write-off treasury shares 370,000,000 NT dollars	2016.02.24(105) Chin so zen No. 10501037030
2016.03		1,800,000,000	18,000,000,000	1,151,234,265	11,512,342,650	Write-off treasury shares 130,000,000 NT dollars	2016.03.18(105) Chin so zen No. 10501053730
2019.02		1,800,000,000	18,000,000,000	1,141,234,265	11,412,342,650	Write-off treasury shares 100,000,000 NT dollars	2019.02.27(108) Chin so zen No. 10801016600

(b) Share Types

Base Date : 2019.02.28

Unit: share

Share Type	Authorized Capital Stock			Note
	Outstanding Shares	Unissued Shares	Total	
Common Stock	1,141,234,265	658,765,735	1,800,000,000	Listed Company Stock
Preferred Stock	0	0	0	

(c) Shareholder Structure

Base date : 2019.02.28

Unit : People ; Share ; %

Structure Volume	Financial Institution	Other legal person	Foreign institution and foreigner	Individual	Treasury Stock	Total
Number of people	7	110	273	33,836	0	34,226
Number of shareholdings (shares)	107,928,566	273,011,275	258,440,198	501,854,226	0	1,141,234,265
Shareholding ratio (%)	9.46%	23.92%	22.65%	43.97%	0%	100%

Note: Current shareholder structure does not have governmental institution.

(d) Equity Dispersion

Denomination of Ten NT dollars per share

Base Date : 2019.02.28

Shareholding classification	Number of Shareholders	Number of shares	Shareholding ratio (%)
1 to 999	16,733	4,397,058	0.39%
1,000 to 5,000	12,058	27,004,578	2.37%
5,001 to 10,000	2,599	19,910,411	1.74%
10,001 to 15,000	789	9,877,574	0.87%
15,001 to 20,000	488	8,899,211	0.78%
20,001 to 30,000	466	12,057,664	1.06%
30,001 to 40,000	201	7,219,268	0.63%
40,001 to 50,000	140	6,498,015	0.57%
50,001 to 100,000	279	19,914,676	1.75%
100,001 to 200,000	150	21,276,611	1.86%
200,001 to 400,000	110	31,541,995	2.76%
400,001 to 600,000	52	25,950,362	2.27%
600,001 to 800,000	20	13,724,182	1.20%
800,001 to 1000,000	21	19,023,624	1.67%
1,000,001 shares and above	120	913,939,036	80.08%
Total	34,226	1,141,234,265	100%

Note: Preferred stock dispersion situation: None.

IV. Fund Raising Status

(e) List of Major Shareholders

Base Date : 2019.02.28

Name of Major Shareholder	Number of shareholding	Shareholding ratio (%)
Mercuries Life Insurance Co. Ltd.	93,386,000	8.18%
Cheng-Chih, Tai	77,824,000	6.82%
Tien-Tsan, Tsai	72,752,033	6.37%
Jin-Cheng Construction Co. Ltd.	46,651,000	4.09%
Tian Gang Investment Co. Ltd.	39,399,025	3.45%
Tian Lai Investment Co. Ltd.	34,690,325	3.04%
Sin-Ruei Investment Co. Ltd.	34,581,869	3.03%
Hsien-Tsung Wang	29,277,882	2.57%
Yi-Ying Chen	23,756,000	2.08%
Fidelity Investment Trust Fidelity Series Emerging Market entrusted by Bank of Taiwan	23,044,000	2.02%

Note: List the top ten shareholding shareholders.

(f) Price per share, net worth, Earnings, dividends and related information for the last two years

Unit: NT dollars

Item	Year		2017	2018	Up to 2019.3.31
Market Price per share	Highest		38.35	43.00	34.65
	Lowest		27.80	28.10	27.80
	Average		31.37	33.84	31.35
Net worth per share	Before distribution		32.25	30.83	34.33
	After distribution		30.74	(Note 4)	-
Earnings per share	Weighted average number of shares (Thousand shares)		1,146,234	1,147,757	1,141,234
	Earnings per share		4.89	2.51	1.60
Dividend per share	Cash Dividend		1.5	-	-
	Issuance of bonus shares	Stock dividend from earnings	-	-	-
		Additional paid-in Capital share allotment	-	-	-
	Accumulated unpaid dividends		-	-	-
ROI Analysis	P/E ratio (Note 1)		6.42	13.48	-
	PER ratio (Note 2)		20.91	-	-
	Cash Dividend Yield Rate(Note 3)		4.78	-	-

Note 1 : P/E ratio=Average Closing Price per share/Earnings per share for the year

Note 2 : PER ratio=Average Closing Price per share/Cash dividend per share

Note 3 : Cash Dividend Yield=Cash Dividend per share/Average Closing price per share for the year

Note 4 : The 2018 surplus distribution has not yet been resolved by the shareholders' meeting.

Note 5 : The net worth per share and earnings per share as of March 31, 2019 are calculated based on the Bank's self-closing.

(g) Dividend policy and Implementation Status

1、Dividend Policy

The Bank's dividend policy is set out in Article 33-1 of the Articles of Association, the contents are as follows:

If the company's annual final accounts have a surplus after completing all tax duties, it should make up for the previous annual losses, and then appropriate 30% to the statutory surplus reserve. After the special surplus reserve is reserved according to the law, the balance, in addition to the accumulated undistributed surplus in the previous year, the Board of directors proposed surplus allocation case and then submit the case to shareholders meeting for approval. Among the dividends distributed, the cash dividend shall not be less than 10% of the total dividends for the year. The above dividend distribution principle may be subject to the business operation needs of the company and the revision of major laws and regulations. The board of directors shall request the shareholders' meeting to moderately adjust the cash distribution. The ratio, but not less than one percent of the

total dividend. If the cash dividend per share is less than 0.1 NT dollars, the cash dividend will not be assigned.

If the statutory surplus reserve of the company has reached the total capital, or if it meets the sound financial standard set by the competent authority in paragraph 2 of Article 50 of the Banking Act, and the statutory surplus reserve is provided in accordance with the Company Act, it is not subject to the restrictions of statutory surplus reserve and the maximum cash surplus allocations.

Before the statutory surplus reserve reach the total capital or the ratio of its own capital to risk assets ratio meet the requirements of the Banking Act, the maximum cash surplus distribution shall be handled in accordance with the provisions of the Banking Act and the regulations of competent authority.

To sum up, the Bank's principle of dividend distribution is the annual finalized surplus after the settlement of taxes, the previous year's loss, the provision of the statutory surplus reserve and the special surplus reserve, and then according to the Company's operating plan to retain the fund needed as the base for distributing dividend to the common stock shareholders, and could also allocate 0 to 60 percent of the base for distributing dividend, then the Board of Director set the surplus distribution case and submit to the shareholders meeting for resolution. However, since the Bank's statutory surplus reserve does not reach the total capital, the maximum cash surplus allocation shall not exceed 15% of the total capital. Therefore, the dividend distribution amount of the Bank is no more than 1.712 billion NT dollars based on the current total capital (11,412,343,000 NT dollars).

- 2、The proposed dividend distribution of the shareholders' meeting: The Bank's 2018 annual final income is proposed to distribute a cash dividend of 1.5 NT dollars per share.
- (h) The impact of the proposed issuance of stock dividend on the bank's operating performance and earnings per share: There was no impact due to the fact that the Bank did not have an issuance of stock dividend in 2018.
- (i) Remuneration of employees, directors and supervisors
- 1、The number or scope of remuneration for employees, directors and supervisors contained in the bank's articles of association :
According to the provisions of Article 1-3 of the Articles of Association of the Company, if the company is profitable in the year, it shall be no less than one in ten thousand for the employee's remuneration and no more than two percent for the director's remuneration. However, when the company still has accumulated losses, the amount for making up the loss should be retained in advance.
The object of the employee's remuneration for the issuance of stocks or cash in the preceding paragraph shall include employees of the subordinate company that meet certain conditions.
 - 2、In this period, the estimated basis of the compensation for employees, directors and supervisors, the basis for the calculation of the number of shares paid by the employees of the stock and the actual distribution amount are calculated when there is a difference between the estimated number of shares: the difference is used as the accounting for the next year in estimating changes.
 - 3、Remuneration distribution status passed by the Board of Directors:
 - (1) Remuneration of employees distributed by cash or stocks and remuneration of directors and supervisors: 2018 annual resolutions of employees' cash compensation amount of NT\$360,000, and directors' compensation amount of NT\$0, and the annual estimated amount and actual expenses recognized have no major differences.
 - (2) The proportion of employees' compensation paid by shares and the total net profit after tax and the total amount of employees' compensation in the current period: None.
 - 4、Actual distribution of compensation for employees, directors and supervisors in the previous year: The Bank passed the 2017 surplus distribution case on May 17, 2018, and the resolution of the directors and supervisors paid 0 NT dollars and the employee cash dividend of 640,100 NT dollars.

IV. Fund Raising Status

(j) Share buyback condition of 2018 up to the end of March 2019:

Buyback of Treasury Stock

Batch order	12 th Batch	13 th Batch	14 th Batch
Purpose of buy-back	Transfer to employees	Maintain bank's credit and shareholder's equity	Maintain bank's credit and shareholder's equity
Timeframe of buy-back	104/7/7~104/8/13	104/8/18~104/9/11	104/9/15~104/11/13
Price range	27~33	22~30	22~30
Quantity of shares bought-back	5,000,000 Shares	10,000,000 shares	15,000,000 shares
Value of shares bought-back	NT\$129,640,464	NT\$219,641,921	NT\$ 369,933,111
Capital adequacy ratio before buying back shares of the Bank	Base Date : 2015/3/31 Ratio : 14.52	Base Date : 2015/6/30 Ratio : 13.77	Base Date : 2015/6/30 Ratio : 13.77
Capital adequacy ratio after buying back shares of the Bank	Base Date : 2015/3/31 Ratio : 14.43	Base Date : 2015/6/30 Ratio : 13.61	Base Date : 2015/6/30 Ratio : 13.36
Number of shares that have been eliminated or transferred	5,000,000 shares(Note 5)	10,000,000 shares (Note 1)	15,000,000 shares (Note 1)
Cumulative holding of the number of shares of the Bank	5,000,000 shares	15,000,000 shares	30,000,000 shares
Cumulative holding of the Bank's shares as a percentage of the total number of issued shares (%)	0.42%	1.25%	2.5%
Execution Progress on the transfer to the employees of those buyback shares	Already transferred	Not applicable	Not applicable
Situation on the buyback stocks which has not been completely transferred within three years and the committee take the restrictive measures	None	Not applicable	Not applicable
Batch order	15 th Batch	16 th Batch	17 th Batch
Purpose of buy-back	Transfer to employees	Maintain bank's credit and shareholder's equity	Transfer to employees
Timeframe of buy-back	104/11/18~104/11/27	104/12/1~105/1/15	105/1/19~105/1/22
Price range	22~30	22~30	22~30
Quantity of shares bought-back	3,000,000 shares	12,000,000 shares	2,000,000 shares
Value of shares bought-back	70,498,802	274,403,637	41,386,144
Capital adequacy ratio before buying back shares of the Bank	Base Date:104/9/30 Ratio : 14.01	Base Date:104/9/30 Ratio : 14.01	Base Date:104/9/30 Ratio : 14.01
Capital adequacy ratio after buying back shares of the Bank	Base Date:104/9/30 Ratio : 13.63	Base Date:104/9/30 Ratio : 13.63	Base Date:104/9/30 Ratio : 13.44
Number of shares that have been eliminated or transferred	3,000,000 shares (Note 3)	12,000,000 shares (Note 1)	2,000,000 shares (Note 4)
Cumulative holding of the number of shares of the Bank	33,000,000 shares	45,000,000 shares	47,000,000 shares
Cumulative holding of the Bank's shares as a percentage of the total number of issued shares (%)	2.75%	3.75%	3.91%
Execution Progress on the transfer to the employees of those buyback shares	Already transferred	Not applicable	Already transferred
Situation on the buyback stocks which has not been completely transferred within three years and the committee take the restrictive measures	None	Not applicable	None
Batch order	18 th Batch	19 th Batch	/
Purpose of buy-back	Maintain bank's credit and shareholder's equity	Maintain bank's credit and shareholder's equity	
Timeframe of buy-back	105/1/28~105/2/26	107/11/05~107/12/17	
Price range	22~30	25~35	
Quantity of shares bought-back	13,000,000 shares	10,000,000 shares	
Value of shares bought-back	274,559,134	314,864,720	
Capital adequacy ratio before buying back shares of the Bank	Base Date:104/9/30 Ratio : 14.01	Base Date:107/9/30 Ratio : 15.05	
Capital adequacy ratio after buying back shares of the Bank	Base Date:104/9/30 Ratio : 13.44	Base Date:107/9/30 Ratio : 14.91	
Number of shares that have been eliminated or transferred	13,000,000 shares (Note2)	10,000,000 shares (Note 6)	
Cumulative holding of the number of shares of the Bank	23,000,000 shares	10,000,000 shares	
Cumulative holding of the Bank's shares as a percentage of the total number of issued shares (%)	1.98%	0.87%	
Execution Progress on the transfer to the employees of those buyback shares	Not applicable	Not applicable	

Situation on the buyback stocks which has not been completely transferred within three years and the committee take the restrictive measures	Not applicable	Not applicable	
<p>Note :</p> <p>1.For the treasury shares bought back at the 13th, 14th and 16th buyback, on 2016.1.18, the Board of Directors decided to conduct treasury shares write off, and on 2016.2.24 received the approval from the competent authority and reduce capital.</p> <p>2.For the treasury shares bought back at the 18th buyback, on 2016.3.1, the Board of Directors decided to conduct treasury shares write off, and on 2016.3.18 received the approval from the competent authority and reduce capital.</p> <p>3.The treasury shares bought back at 15th buyback is sold to the employees, each share transfer price is 23.50 dollars, and the stock settlement was done on 2016.5.19 and 2016.8.23.</p> <p>4.The treasury shares bought back at 17th buyback is sold to the employees, each shares transfer price is 20.69 dollars, and the stock settlement was done on 2016.4.22</p> <p>5.The treasury shares bought back at 12th buyback is sold to the employees, each share transfer price is 25.93 dollars, and the stock settlement was done on 2018.3.16 and 2018.8.3</p> <p>6.2.For the treasury shares bought back at the 19th buyback, on 2019.1.21, the Board of Directors decided to conduct treasury shares write off, and on 2019.2.27 received the approval from the competent authority and reduce capital and the change registration was completed.</p>			

B. Financial Bond Issuance status:

None.

C. Preferred Stock Status:

None.

D. Overseas depositary receipts issuance status

None.

E. Issuance status of employee stock option and new shares for employees with restricted stock rights

None.

F. Merger or sold to other financial institution

None.

G. Fund utilization plan and execution status

- (a) Contents of the Plan: In 2018, the Bank does not have a plan to issue financial bonds and conduct capital increase in cash.
- (b) Execution Status: None.

V. Operation Status

A. Content of Business

(a) Major business area

1、Deposits

Accepting check deposits, current deposits, time deposits, consolidated deposits, agency receipts and payments on behalf of others, and handling domestic remittance.

2、Loans

Divided into corporate finance and consumer finance, corporate financial lending business for all kinds of loans, discounted bills, issuing domestic letters of credit and domestic guarantees, consumer finance lending business for personal mortgage and consumer finance business.

3、Foreign Exchange Business

Conduct foreign currency deposits, foreign exchange, import, export, foreign currency loans and foreign currency guarantee business.

4、Wealth Management Business

Through the analysis of investment attributes, we help locate the risk attributes of our customers and provide tailor-made financial planning (including insurance and funds).

5、Trust Business

Conducting specific money trusts to invest in domestic and foreign securities, advance receipt trusts and real estate trusts.

6、Investment Business

Handling domestic and foreign currency fund dispatching, investing in securities, issuing financial bonds, etc.

(b) The proportion of each business asset and/or income to total assets and/or income and its growth and changes

1、Each business asset and its growth and change status

Unit: NT \$1,000 ; %

Item	2018.12.31	2017.12.31	Amount of increase (decrease)	Growth Rates (%)
NT dollars Deposit Business	175,585,475	164,911,293	10,674,182	6.47
Foreign Currency Deposit Business	13,130,016	15,811,809	(2,681,793)	(16.96)
Loans	154,571,216	145,157,201	9,414,015	6.49
Trust Balance	27,590,280	14,737,230	12,853,050	87.21

Unit: NT\$ Million ; %

Item	2018.12.31	2017.12.31	Amount of increase (decrease)	Growth Rates (%)	
Investment Business	Central Bank CD	17,600	17,600	0	0
	Domestic Government Bond	39,224	37,105	2,119	5.71
	Domestic Corporate Bond	0	0	0	0
	Stocks	5,236	4,634	602	12.99
	Funds	2,367	470	1,897	403.62
	REITS	387	387	0	0
	Domestic convertible bond	50	50	0	0
	Asset Exchange	0	0	0	0
	Structured Product	0	0	0	0
	Foreign currency securities	38,233	37,233	1,000	2.69
	Long-term equity investment	745	740	5	0.68
Total	103,842	98,219	5,623	5.72	

2、The proportion of each business to operating income

Unit: NT \$1,000 ; %

Item	2018		2017	
	Amount	Ratio (%)	Amount	Ratio (%)
Operating Income	7,000,814	100%	9,005,445	100.00
Loan Business	4,517,629	64.53%	3,949,886	43.86
Corporate Finance	4,176,579	59.66%	3,602,617	40.00
Consumer Finance	341,050	4.87%	347,269	3.86
Trust Business	10,298	0.15%	12,849	0.14
Foreign Exchange Business	520,104	7.43%	468,979	5.21
Wealth Management Business	355,846	5.08%	431,835	4.80
Investment Business	1,574,840	22.50%	4,115,762	45.70
Others	22,097	0.32%	26,134	0.29

(c) 2019 Annual Business Plan

1、Deposit Business

- (1) Grasping the trend of digitalization, driving innovation in business models, actively creating a digital financial environment, providing more financial services for the people and enterprises, and enhancing the competitiveness of the financial industry.
- (2) According to the characteristics of each business unit, design products that meet market needs, implement external visit activities and strengthen community development. By promoting various activities, make the Bank become the main cash flow bank for customers.
- (3) Actively provide customers with all-round services, promote financial digital transaction, use digital technology to develop new channels and branch digital services, and enhance customer loyalty to banks.

2、Credit (Loan) Business

- (1) Adjust the credit products according to market changes and provide suitable financial products according to different customer characteristics, and provide different lending programs for various capital needs to meet the financial needs of customers.
- (2) Review the revenue of credit products and continue to develop innovative financial products to increase the functions and added value of the Bank's credit products.
- (3) Continue to focus on the credit insurance business, and cooperate with the credit business of SMEs to effectively improve capital efficiency, protect creditor's rights, and actively participate in domestic and international syndicated loan cases, gradually strengthen the breadth of credit and enhance market visibility.

3、Foreign Exchange Business

- (1) Actively develop the digital banking environment of online banking and mobile internet banking to enhance the competitiveness of the Bank's foreign exchange business and the loyalty of customers to banks.
- (2) Actively negotiate the remittance business, provide diversified remittance services, shorten the collection time, increase the convenience of use, and meet the rapid payment needs of consumers.
- (3) Continuously streamline the foreign exchange operation process and various application forms to improve operational efficiency and customer satisfaction.
- (4) Cooperate with the policies of the competent authorities to strengthen the handling of foreign exchange transactions and money-laundering and anti-terrorism financing (AML/CFT). It will also strengthen the security and digital financial service system and move toward the goal of digitalization of financial services.

V. Operation Status

4、Wealth Management Business

- (1) Plan and implement various professional training courses in the wealth management business, including:
 1. The professional training for wealth management specialists is divided into Tainan, Zhongpu and Taipei districts and performed twice a month, with 90 trainees per session.
 2. Training of trust business personnel, two session in Taiwan, and 160 trainees are expected to be trained.
 3. Unscheduled held branch manager and wealth management staff wealth management business seminar.
 4. Wealth management trainee training course and basic training course of new wealth management personnel.
 5. Conference call every Tuesday morning (investment market newsletter).
 6. In order to let the branch colleagues understand the investment market trends and new investment products, new commodity education training courses will be held from time to time.
 7. In order to let the Bank's wealth management customers and colleagues understand the investment market trends and directions, VIP customer financial advisory sessions and branch evening sessions will be held from time to time.
- (2) Focus on niche-type commodities and large-scale fixed-equity stock fund business to increase the fee income of the Bank.
- (3) The investment platform continues to increase and promote overseas debt and ETF products.
- (4) Cooperate with the development of e-commerce, strengthen the establishment and development of non-over-the-counter platform of financial management business, and plan to add online banking (Web) and mobile banking (APP) ETF trading functions in 2019.

5、Trust Business

- (1) Cooperate with the promotion of wealth management business, construct new product transaction platform.
- (2) Promote Dollar Cost Averaging fund transaction regulation and strengthen operation inspection:
 1. Update or revise the operating procedures and related specifications in a timely manner in accordance with the regulations of the competent authority.
 2. Strengthen the implementation of the authorization of the fund system of the business unit and review the management at any time.
- (3) Sales contract signing and management :
 1. Cooperate with wealth management needs in signing sales contracts and complete the operation process of the pushing the products to the market.
 2. Timely response or immediate renewal of contract-related contents.
 3. Establish a notification platform for delivering the information from fund companies.

6、Financial Operation Business

- (1) Strengthen asset and liability management, strictly control liquidity risk and improve the overall capital utilization efficiency of banks.
- (2) Maintain a smooth and stable fund dispatching business to support the development of branch deposit business.
- (3) Clearly define the operating norms and scope of authorization for various securities investment and derivative products transactions to strictly control various transaction risks.

(d) Market Analysis

1、The business area of the Bank

At present, the Bank has 66 domestic sales offices and one international financial business branch, which are located in Yunlin-Chiayi-Tainan area and major metropolitan areas, 14 in the northern region, 4 in the central region, 43 in the Yunlin-Chiayi-Tainan area, and 5 in the Kaohsiung-Pingtung area and those branches are all full-featured branches. The main business scope includes diversified businesses such as wealth management, personal finance and corporate finance, which can provide customers with the highest quality financial services.

2、Future Supply and Demand situation and Growth of the Market

In terms of market supply, due to the abundance of market funds, the bank deposits and interest spreads are low, and the rise of financial technology, non-financial operators can also engage in e-commerce cash flow services, making the financial industry more competitive. Future financial markets are due to: Sino-US trade disputes issues, the uncertainty of the Brexit, the mainland China's economic slowdown and debt problems, the US FED interest rate hike and contraction progress, pure online banking application review results, the fierce competition from other domestic and foreign bank operating in Taiwan and low interest spreads affect factors such as profitability, and the overall profit must be conservatively estimated for the future.

3、Advantages and disadvantages of competitive niche and development prospects

(1) Advantages to the Bank's Competition in the Market

1. Operating performance indicators (net return, NPL ratio and Coverage ratio) are better than the general level of domestic banks.
2. Deeply rooted in the local operation, with long-term loyal customers, small and medium-size financial institutions with niche advantages.

(2) Disadvantages to the Bank's Competition

1. The deposit business is relatively small, and most of the branch offices are concentrated in the Yunlin-Chiayi-Tainan area. There are few locations in the north and central regions, which is not conducive to business development.
2. The Bank has not established an overseas branch, which is not conducive in getting the business of Taiwanese businesses overseas. The profitability of overseas markets is limited.

4、Counter measures

- (1) Regularly assess the performance of branches and regional developments to adjust business bases and increase competitiveness.
- (2) Focus on core products, integrate marketing resources, implement cross-marketing, expand core customer business contacts, and improve customer overall contribution.
- (3) Apply for concurrent operation of insurance agent business, strengthen the protection of customer rights and enhance operational performance.
- (4) In response to the needs of the digital financial era, we will continue to build a new generation of personal online banking, corporate online banking and mobile banking to provide customers with a more user-friendly interface and trading functions.

V. Operation Status

(e) Overview of financial product research and business development

1. Major financial products and additional business units and their scale and profit and loss situation in the past two years

(1) On aspect of corporate finance :

1. Cooperate with the government's economic revitalization policies and strengthen lending to enterprises. For small and medium-sized enterprises with insufficient guarantee capacity, they will be transferred to the SME Trust Fund to guarantee financing. As of the end of 2018, the balance of loans to SMEs was 78,325,119,000 NT dollars.
2. Corporate Finance provides professional and diversified financial products and services for all types of SME customers, such as transportation industry, construction industry, tourism industry and construction business financing, etc., to understand the actual business conditions of customers, and to carry out customized financial and Financing structure planning to clarify the source of repayment and reduce the overall credit risk.
3. Actively promote the supply chain financing business, regional core industry credit business, and enhance product competitiveness.

(2) On the aspect of consumer finance:

1. Actively promote the housing mortgage business, such as Preferential interest Mortgage, wealth management mortgage, and the overall mortgage balance as of the end of 2018 is 18,750,831,000 NT dollars.
2. The mortgage business is aimed at steady development, providing customers with product needs at different stages, deepening local customers, strengthening customer relationship maintenance and service quality, etc., which is conducive to the long-term stable development of the mortgage business.

(3) On aspect of trust business:

As regards to the business profile of trust business in 2018, the balance of the specific money trust (fund business) assets at the end of December 2018 was 10,414,291,000 NT dollars, and the balance of assets of other trusts (including real estate trusts and other money trust businesses) was 17,175,989,000 NT dollars. The total trust assets were 27,590,280,000 NT dollars and the total trust fee income was 74,438,000 NT dollars.

(4) On aspect of wealth management:

Due to the downgrade of life insurance agency commissions, the 2018 wealth management business fee income was 355,846,000 NT dollars, which was 75,989,000 NT dollars less than last year, but the number of cases committed did not decline.

2. Research and development expenditures and their achievements in the last two years, and future research and development plans

(1) Research & Development Expenditure

Unit: NTS 1,000

Year	2018	2017
Amount	40,713	24,360

(2) Research and Development Results

1. Complete the fund order placement automation.
2. Complete the Line instant notification project.
3. Complete Bank passbook printing machine upgrade project.
4. Complete the Western Union overseas e-commerce shopping project

5. Complete the new personal online banking and mobile banking project.
6. Complete the SWIFT Alliance Access 7.2 software and hardware upgrade.
7. Complete the Common Reporting Standard (CRS) project.
8. Complete own cordless deposit program.
9. Complete the creation of webpages for physical and mental disabled customers.
10. Complete the customer risk level assessment project.

(3) Future Research and Development Plans and Expected Input of R&D Expenditures

Plans in recent years	R&D expenses that should be reinvested (Thousand dollars)	Estimated Finish Time
Line instant notification second phase	0	Feb, 2019
Foreign Exchange Agent SET APP Project	0	June, 2019
ATM interbank transfer fee reduction project	0	March, 2019
Foreign currency stage interest rate interest-bearing project	0	April, 2019
Financial cross-border payment project	380	September, 2019
Old EAI system conversion project	349	June, 2019
New Personal Banking and Mobile Banking ETF Project	0	June 2019
ACH system file format expansion project	0	August, 2019
Simplified internal workflow	0	December, 2019
Cordless Withdrawal Project	0	December, 2019
Off-site backup computer room integration and construction	6,000	December, 2019

Note: The estimated completion time is estimated based on the original planning design and will be adjusted depending on business process changes or other project schedules.

(f) Long-term and short-term business development plans

1、Short-term business development plan

- (1) Master the development trend of digitalization, promote the innovation of business models, provide more financial services for the people and enterprises, and enhance the competitiveness of the financial industry.
- (2) Actively provide customers with all-round services, promote digital financial transactions, use digital technology to develop new channels and branch digital services, and enhance loyalty to banks.

2、Long-term business development plan

- (1) Focusing on niche-type financial products in response to changes in the financial environment and business needs, and promoting fee income base service.
- (2) Simplify continuous operations, reduce operational risks, improve operational service efficiency, and provide customers with quality financial services.
- (3) Review the economic development of each region and the performance of the branches, and propose a branch migration plan in a timely manner to enhance the competitiveness of the Bank.
- (4) Strengthen the leadership functions and management skills at all levels, accelerate the training of trainees, and build on the foundation of the Bank's sustainable operation.
- (5) Doing good corporate social responsibility, enhancing employee welfare, and cultivating the local community.

B. Information on employees of the last two years up to the printing of the annual report

(a) Employee data

Year		2017	2018	Up to Feb 28, 2019
Number of Employee	Supervisor	267	268	270
	Staff Clerk	664	671	678
	Total	931	939	948
Average Age		38.8	39.6	39.5
Average Service Seniority		12.7	12.3	12.09
Education Distribution Ratio	Master and above	9.35%	9.27%	9%
	College and University	82.92%	82.11%	83%
	High school and below	7.73%	8.63%	8%
Name of Professional Qualification	Securities dealer business staff test	138	129	141
	High level securities dealer business staff test	87	84	91
	Securities investment analyst test	7	7	8
	Futures dealer business staff test	64	62	25
	Investment trust and consulting staff test	60	58	62
	Trust Business staff test	694	681	708
	Financial planner staff test	201	197	193
	Bank Internal Control and Internal Audit test	659	648	648
	Basic foreign exchange staff test	100	99	104
	Basic credit staff test	211	207	207
	Advance credit staff test	9	9	10
	Life Insurance Agent Test	6	6	6
	Property Insurance Agent Test	4	4	5
	Life Insurance Broker Test	3	3	3
	Property Insurance Broker Test	4	4	4
	Life Insurance Sales Test	805	786	823
	Property Insurance Sales Test	748	733	780
	Investment link Insurance Product Sales Test	509	502	505
	Foreign currency receipt and non-investment linked product test	464	456	490
	SME Financial Personnel Qualification Certificate	25	25	26
	Structured product sales personnel qualification	166	164	162
	Professionals in anti money-laundering and anti terrorist financing	0	285	285
	Basic Risk Management Test	4	6	6
	Financial Digital Knowledge Examination	8	19	19
	Chartered Financial Analyst	2	2	2
	International anti-money launderer	1	1	1
	Lawyer	1	1	1
International Internal Auditor	1	1	1	
CISA International computer auditor	0	1	1	

(b) The Bank's personnel related to the transparency of financial information obtain the relevant licenses specified by the competent authority as follows:

Related Department	Relevant Qualification and Certification designated by Competent authority	Number of People obtained
Audit Office	Bank Internal Control and Internal Audit Test (Taiwan Academy of Banking and Finance)	14
	CIA International Internal Auditor	1
	CISA International Computer Auditor	1
Administrative department	Bank Internal Control and Internal Audit Test (Taiwan Academy of Banking and Finance)	9
	SME Financial Test (Ministry of Economic Affairs, Taiwan Academy of Banking and Finance)	1
	Basic Enterprise Internal Control Test (Securities Institute)	1
Finance department	Bank Internal Control and Internal Audit Test (Taiwan Academy of Banking and Finance)	11
Risk Management Department	Bank Internal Control and Internal Audit Test (Taiwan Academy of Banking and Finance)	11
	Basic Enterprise Internal Control Test (Securities Institute)	1
Regulatory Compliance Department	Bank Internal Control and Internal Audit Test (Taiwan Academy of Banking and Finance)	7
	SME Financial Test (Ministry of Economic Affairs, Taiwan Academy of Banking and Finance)	1
	International Anti Money Launderer (International Anti Money Launderer Association)	1
	Professional Anti Money-Laundering and Terrorist Financing Test (Taiwan Academy of Banking and Finance)	9

(c) Employee Trainings

In response to changes in the financial environment and maintaining corporate competitiveness, the Bank strengthened its personnel training and promoted employees' lifelong learning concepts, encouraged employees to pursue learning growth and motivate their personal potential, and continued to focus on resource training courses. The purpose is to encourage colleagues to participate in training activities. Enhance the knowledge and skills required to hold a position, improve work efficiency and service quality, and benefit the development of personal career. The results of the company's 2018 annual education and training are as follows: :

Program Item	Number of classes	Total number of trainings	Total hours	Total Expenses (thousand NT dollars)
Professional Training	292	3,303	20,215	14,536
New Recruit Training	4	94	2,824	
Government Policies & Decrees	3	415	1,882	
Information Security Education Training	3	1,816	1,320	
Labor Safety and Fire Fighting Training	2	77	145	
Total	304	5,705	26,395	

V. Operation Status

(d) Managers' training related to corporate governance :

In 2018, Managers participated in corporate governance training courses, the total training hours are 108 hours and 18 managers participated in the training courses.

Title	Name	Training Date	Host Unit	Program Name	Hours
President	Jih-Cheng, Chang	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Chief Auditor	Ching-Chu Pai	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Vice President	Chi-Wei Yu	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Digital Service and Operation Management Associate Vice President	Peng-Chen Su	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Wealth Management Associate Vice President	Hsueh-Ling Chen	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Administrative Department Associate Vice President	Chien-Ko Yang	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Risk Management Department Manager	Hung -Sung Shen	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Regulatory Compliance Manager	Yu-Che Cheng	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Credit Exam Department Manager	Ssu-Wei Chang	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Human Resource Department Manager	Ya-hui Chu	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6

Title	Name	Training Date	Host Unit	Program Name	Hours
Trust Department Manager	Chia-Jung Tsai	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Information Technology Office Manager	Hsiang-Yin Lin	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Credit Business Team South Team 1 Manager	Ming-Jen Wu	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Credit Business Team South Team 2 Manager	Chih-Fu Huang	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Credit Business Team Yulin-Chaiyi Team Manager	Chun-Ching Chen	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Xigang Branch Manager	Li-Hsueh Hsu	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Dalin Branch Manager	Ching-Mei Wu	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6
Shanhua Branch Manager	Hui-Ling, Ko	2018.11.26	Taiwan Securities Association	“Corporate Corruption Development Trends and Prevention - From the Perspective of Corporate Governance” and “External Control Structure and Practice of Money Laundering Prevention”	6

(e) Protection measures for employees' working environment and employees' personal safety

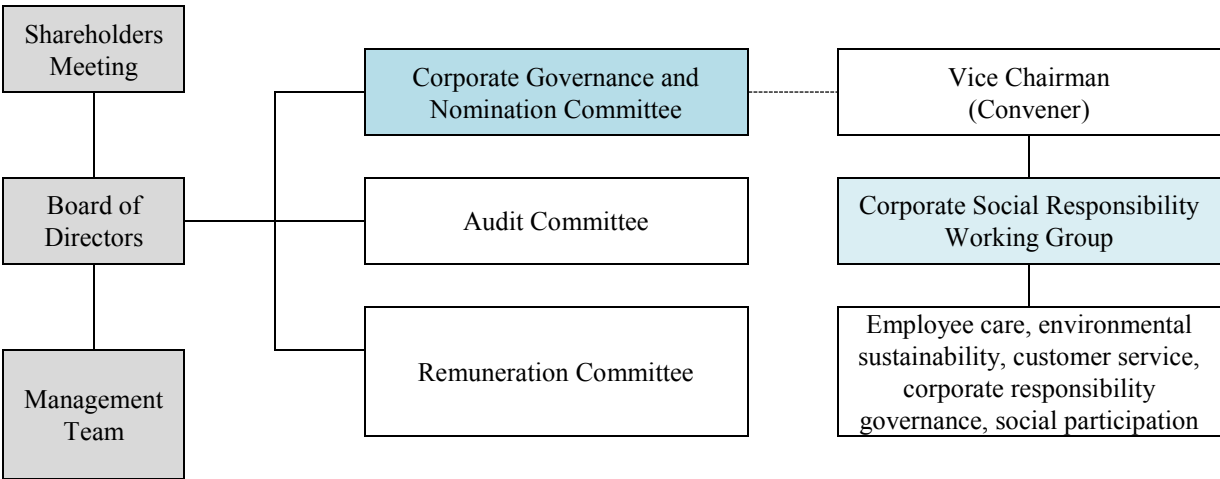
- 1、The Bank sets up security systems and security personnel at the business premises to maintain workplace and employee personal safety.
- 2、Formulate safety and health work codes, and organize annual work on safety and health related work in accordance with regulations to achieve the goal of zero disasters in the workplace and ensure the safety and health of all employees.
- 3、Organize fire drill on self-defense grouping exercises twice a year to strengthen staff's fire refuge common sense.
- 4、Hold CPR cardiopulmonary resuscitation first aid training course to improve staff first aid knowledge and skills.
- 5、In 2018, the labor safety and firefighting group training was conducted in 2 sections with a total of 77 person-times and the course totaled 308 hours.

C. Corporate responsibility and ethical behavior

The community is the foundation of the Bank. In the face of changes in the market environment and social changes, the Bank knows that only by practicing corporate social responsibility and balancing the rights and interests of stakeholders can we continue to grow and thrive. The Bank has a “Corporate Governance and Nomination Committee” under the Board of Directors, and the Vice Chairman of the Board of Directors convened the “Corporate Social Responsibility Working Group”. The General Manager co-ordinates and sets up employee care, environmental sustainability, customer service, corporate responsibility governance and Social participation and other groups meet regularly every quarter, and the results will be reported to the Board of Directors after the implementation of the Corporate Governance and Nomination Committee. The corporate governance and implementation results of the corporate social responsibility are as follows.

- (a) Strengthen corporate governance, attach importance to risk control, and implement compliance with laws and regulations.
- (b) Refine business processes, understand customer needs, and enhance customer experience.
- (c) Cultivate local talents, care for work partners, and affirm women's functions.
- (d) Caring for vulnerable families, eliminating barriers to schooling, and sponsoring arts and cultural activities.
- (e) Promote green energy loans, create a green environment, and mitigate climate change.

Corporate Governance Structure



List of 2018 Corporate Social Responsibility Achievements of King’s Town Bank

Customer Care

1. In January of 2018, whole new King’s Bank Mobile Bank APP was fully updated to provide better mobile services.
2. In March 2018, the LINE Personalized Binding Service was launched, and the account transaction was immediately notified to protect the customer's assets.
3. In May 2018, a number of digital angels were set up to guide customers to use the digital products of the Bank to create a new digital life.
4. In October 2018, the King’s Bank APP and Personal Internet Banking evolved to provide complete mobile services °
5. Respond to the customer satisfaction survey results, replace the ATM, install the automatic deposit teller machine, and complete the installation of 46 deposit machines in 2018 to provide customers with more convenient services.
6. LINE@ friends grew by 273%.
7. The number of FB fan group friends grew by 61%.

List of 2018 Corporate Social Responsibility Achievements of King's Town Bank	
8.	In 107, the company introduced the ACH or national payment business for companies, institutions or government organizations with collection of business needs, and obtained the "Growth Excellence Award" from the Taiwan Clearing House ACH Transaction Growth Competition. °
Environment Protection	
1.	In January, 2018, paperless system was launched, and the electronic document system was used to reduce paper storage space and paper consumption.
2.	In October 2018, won the first prize of the 2018 Taipower SMEs Non-manufacturing Energy Conservation Competition. °
3.	In November 2018, the Bank passed the ISO 50001 energy management system certification.
4.	The electricity consumption of the whole bank in 2018 was 5,130,015 degrees, a decrease of 4.32% compared with the previous year. °
5.	The water consumption of the whole bank in 2018 was 21,293 degrees, a decrease of 2.97% from the previous year.
6.	The greenhouse gas emissions in 2018 were 2,868.81 (metric tons of CO2e/year), a decrease of 4.13% from the previous year °
7.	In 2018, the internal green power generated by King's Town Bank was 14,745 degrees, which could reduce the carbon emissions in the amount of 8,169 kilograms.
Social welfare and Community Participation	
1.	In 2018, the Bank held or participated in community care activities for a total of 203 events, with 1,929 volunteers and benefited 54,191 people.
2.	Organize the King's Town Bank's 2018 Drawing and Composition Competition and provide a scholarship of 95,000 NT dollars to reward 109 students.
3.	In 2018, the Bank prevented 66 frauds, and the amount blocked was equivalent to NT\$9.2 million. The results were fruitful and commended by the Police Department.
4.	Sponsored the Tainan Arts Festival, the Angel Heart Family Foundation, the "Teach for Taiwan" Foundation, the Qinglan Lanjingying Development Association, the Tainan Police Station, the golfers and the community, and other activities and activities totaling 2.8 million NT dollars.

D. Number of non-supervised employees, average annual employee benefits and differences from the previous year:

	2018	2017	Growth Rate
Number of employees who are not in supervisory positions (person)	861	845	1.89%
Annual employee average welfare fee (NT dollar)	843,305	823,062	2.46%

E. Information Technology Equipment

The current IBM AS/400 server group is responsible for core business such as the NT dollar deposit system, check deposit system, bill collection system, remittance system, accounting system, lending system, foreign exchange system, telephone banking, online banking, corporate online banking, and mobile banking; Others such as, funds, central government funds, bond vouchers and wealth management systems use IBM or HP servers. °

In terms of promoting the financial information system and coordinating the policies of the competent authorities, the line instant notification, the new electronic document system, the online financing of accounts receivable, the improvement of the reporting operation process, the overseas e-commerce

V. Operation Status

shopping of Western Union, the new personal online banking and the mobile banking project have been completed. SWIFT Alliance Access 7.2 software and hardware upgrades, patch machine system upgrades, ATM self-cordless deposits, joint filing criteria filing, physical and mental obstacles webpage construction, customer risk rating assessment, money laundering prevention and control projects, etc., in order to improve operational efficiency, Providing a more convenient and secure trading environment for customers, and will continue to streamline existing operations and digital business innovation in the future, and provide value-added services through message platform and digital integration to achieve friendly service.

In terms of information operation security, in addition to implementing the general security of the equipment room, strengthening the fire safety facilities, environmental monitoring and early warning functions, the IPS firewall and application firewall (WAF) have been completed, the central backbone switch has been replaced, and the internal network has been strengthened. Projects such as architecture and information equipment monitoring systems. In order to strengthen the security protection measures, the use of international IT firewalls, anti-virus systems and intrusion detection and other related information security equipment will continue to develop the planning of security equipment in the future to enhance network security.

The company's communication uses broadband and high-performance network lines and equipment as the basic platform for information circulation and resource integration. The business unit connection architecture uses HiLink VPN (enterprise-specific ultra-high-speed data exchange network), which has load balancing and mutual The backup function will continue to enhance the core capabilities by constructing a secure and efficient internal operations management and external collaborative trading environment.

F. Labor Relation

- (a) Various employee welfare measures, retirement system and its implementation, as well as the agreement between the employees and the maintenance measures of various employee rights:

1、Company Welfare Measures

- (1) Welfare items: discounts on employee deposits and loans, group insurance, sports and cultural activities.
- (2) In addition to the establishment of the Staff Welfare Committee to handle the relevant welfare matters, the employees may apply for subsidies such as marriage, childbirth and funeral in accordance with the regulations.
- (3) Labor Meeting: Labor meeting is held in accordance with Article 83 of the Labor Standards Act to promote harmony in labor relations.

2、Staff Welfare Committee

The Bank has an "Employee Welfare Committee" which deducts 0.5% from the employee's salary and monthly deductions of 0.1% from the operating income as the fund for the operation of this committee. The committee will co-ordinate the use of employee benefits, including:

- (1) Mutual assistance such as marriage, birth, funeral, illness or injury.
- (2) Holiday bonus for the Spring Festival, Dragon Boat Festival and Mid-Autumn Festival.
- (3) Subsidies for internal society and clubs.

3、Employee welfare savings trust system

The employees of the Bank form the "King's Town Bank Co., Ltd. Employee Stock Ownership Association", which stipulates that a certain amount of money will be paid to the trustee from each member's salary every month. The long-term investment will acquire and manage the stock of the Bank, and the company will also provide incentives according to the agreement. In order to strengthen the employee's loyalty to the Bank, assist the participating members to accumulate wealth and ensure their retirement after retire or after leaving their posts.

4、Retirement system

According to the relevant regulations in “Labor Standards Act” and “Labor Pension Act”, the Bank has formulated “Employee Retirement Measures” to handle employee retirement matters. Employees who have on of the following circumstances may apply for voluntary retirement:

- Those who have served for more than 15 years and have reached the age of 55.
- Those who have served for more than twenty-five years.
- Those who have worked for more than ten years and are over 60 years old.

The employee retirement plan established under the Labor Standards Act is a defined benefit plan. Since 2012, a pension fund has been paid on a monthly basis based on 15% of the total salary, and is stored under the name of the Labor Retirement Reserves Supervision Committee in a special account with the Bank of Taiwan. When an employee retires, the pension is calculated based on the base of his service and the approved average monthly salary six months prior to the retirement.

The employee retirement scheme established under the Labor Pensions Act is a defined allocation plan. The monthly pension is paid at a rate of 6% of the employee's salary. The amount of fees allocated and recognized in 2018 and 2017 was \$30,783,000 and \$31,281,000 respectively.

5、Employee interest’s protection measures

In order to clearly defines the rights and obligations of both the labor and the employer, so that the two parties can work together to create a sustainable development of the business. The Bank, based on the relevant regulations in Article 70 of the Labor Standards Act to set up the Bank’s “Working Rules” for both parties to comply.

6、The results of the 2018 annual labor inspections of the Bank did not find any violation to the Labor Standards Act and the Bank has followed through on the protection of employees' rights and interests.

- (b) The losses suffered by the labor dispute in the most recent year up to the end of February, 2019 and the disclosure of the estimated amount and corresponding measures that may occur at present and in the future:
None

G. Important Contracts

Contract Characteristics	Involving Parties	Contract Period	Main contents	Restriction Term
Retainer agreement	Leader International Asset Management Service Co. Ltd.	2019.03.08-2020.03.07	Overdue account collection	No
Retainer agreement	Jungshin Assets Management Co. Ltd.	2018.06.29-2019.06.28		No
Retainer agreement	Asia Credit Management Co. Ltd.	2018.06.29-2019.06.28		No
Retainer agreement	United Credit Service	2018.06.29-2019.06.28		No

H. Types of securitized products and related information that have been applied for approval in the recent years under the Financial Asset Securitization Act or the Real Estate Securitization Act: None.

VI. Financial Status**A. Five Year Condensed Balance Sheet and Income Statement Summary**

(a) Consolidated Condensed Balance Sheets

Unit: NT\$ 1,000

Item	Year	Five-Year Financial Data				
		2014	2015	2016	2017	2018
Cash and cash equivalents, Due from the Central Bank and call loans to other banks		44,961,047	38,841,253	39,288,559	18,978,280	18,187,099
Financial assets at fair value through profit or loss		3,333,154	4,722,217	5,585,356	21,606,855	31,786,797
Financial assets at fair value through other comprehensive profit or loss		-	-	-	-	53,487,356
Debt instrument investment measured by amortized cost		-	-	-	-	17,597,996
Bonds and securities purchased under resell agreements		772,295	3,287,166	3,106,295	2,565,772	624,167
Receivables, net		901,001	1,289,518	1,470,477	2,669,418	3,642,416
Discount and Loans, net		121,560,045	123,642,946	124,251,450	142,947,865	152,229,752
Available-for-sale financial assets		55,660,486	58,310,324	63,973,405	59,078,492	-
Held-to-maturity financial assets		-	-	-	17,600,000	-
Investments accounted for using equity method, net		-	-	-	-	-
Other financial assets, net		4,524,455	4,227,015	3,052,381	2,309,637	4,705
Property and Equipment, net		2,548,865	2,494,436	2,461,730	2,393,890	2,388,923
Investment property, net		-	-	-	-	-
Deferred tax assets, net		305,307	216,709	235,828	275,018	266,927
Other assets		720,865	522,006	658,481	751,034	878,581
Total assets		235,287,520	237,553,590	244,083,962	271,176,261	281,094,719
Due to Central Bank and other banks		12,863,112	17,160,139	10,381,448	22,269,428	19,937,251
Loans from The Central Bank and other banks		4,377,084	3,835,656	7,811,960	5,315,680	3,438,640
Financial liabilities at fair value through profit or loss		594,167	26,986	34,946	127,902	25,784
Bonds and securities sold under repurchase agreements		27,902,026	16,431,429	15,553,347	21,359,805	29,316,496
Payables		1,676,477	1,156,928	2,260,933	2,431,811	2,311,881
Current tax liabilities		775,253	268,041	577,283	564,198	404,846
Liabilities directly associated with assets held for sale		-	-	-	-	-
Deposits and remittance		159,224,751	169,383,517	173,752,830	180,388,401	188,432,924
Other financial liabilities		-	-	70,000	900,000	1,230,000
Provisions		478,222	471,814	491,765	473,759	420,427
Deferred tax liabilities		81,387	73,721	55,482	50,135	59,890
Other liabilities		168,189	290,250	293,472	334,262	332,519
Total liabilities	Before payout	208,140,668	209,098,481	211,283,466	234,215,381	245,910,658
	After payout	209,942,520	209,669,098	213,002,818	235,936,103	Note 2
Equity attributable to shareholders of the parent		27,146,852	28,455,109	32,800,496	36,960,880	35,184,061
Capital stock	Before payout	12,012,343	12,012,343	11,512,343	11,512,343	11,512,343
	After payout	12,012,343	12,012,343	11,512,343	11,512,343	Note 2
Capital surplus		178,746	180,332	62,323	62,323	99,585
Retained earnings	Before payout	14,065,004	15,916,232	19,593,229	23,478,293	24,355,709
	After payout	12,263,152	15,345,615	17,873,877	21,757,571	Note 2
Other equity		890,759	1,319,176	1,762,241	2,037,561	(468,711)
Treasury shares		-	(972,974)	(129,640)	(129,640)	(314,865)
Noncontrolling interests		-	-	-	-	-
Total equity	Before payout	27,146,852	28,455,109	32,800,496	36,960,880	35,184,061
	After payout	25,345,000	27,884,492	31,081,144	35,240,158	Note 2

Note 1 : Financial data between 2014 to 2018 have been audited by CPAs. °

Note 2 : The earning distribution proposal of year 2018 has not been resolved by shareholders.

(b) Condensed Balance Sheets

Unit: NTS 1,000

Item	Year	Five-year financial data				
		2014	2015	2016	2017	2018
Cash and cash equivalents, Due from the Central Bank and call loans to other banks		44,761,047	38,503,721	38,829,461	18,938,467	18,163,828
Financial assets at fair value through profit or loss		3,333,154	4,722,217	5,585,356	21,606,855	31,459,508
Financial assets at fair value through other comprehensive profit or loss		-	-	-	-	53,412,766
Debt instrument investment measured by amortized cost		-	-	-	-	17,597,996
Bonds and securities purchased under resell agreements		772,295	3,172,466	3,106,295	2,565,772	624,167
Receivables, net		882,211	995,199	1,073,268	950,065	1,028,136
Discount and Loans, net		121,560,045	123,642,946	124,251,450	142,947,865	152,229,752
Available-for-sale financial assets		55,660,486	58,310,324	63,791,755	58,723,646	-
Held-to-maturity financial assets		-	-	-	17,600,000	-
Investments accounted for using equity method, net		300,723	913,341	997,671	1,066,561	988,643
Other financial assets, net		4,524,455	4,127,015	2,952,381	2,189,637	4,705
Property and Equipment, net		2,548,865	2,494,270	2,461,369	2,392,392	2,387,498
Investment property, net		-	-	-	-	-
Deferred tax assets, net		305,307	216,709	235,828	267,833	265,736
Other assets		718,165	519,304	653,899	745,778	870,298
Total assets		235,366,753	237,617,512	243,938,733	269,994,871	279,033,033
Due to Central Bank and other banks		12,863,112	17,160,139	10,381,448	22,269,428	19,937,251
Loans from The Central Bank and other banks		4,377,084	3,835,656	7,746,960	4,775,680	2,458,640
Financial liabilities at fair value through profit or loss		594,167	26,986	34,946	127,902	25,784
Bonds and securities sold under repurchase agreements		27,902,026	16,431,429	15,553,347	21,359,805	29,316,496
Payables		1,670,618	1,148,858	2,242,415	2,419,466	2,299,446
Current tax liabilities		749,214	230,666	527,028	544,736	366,893
Liabilities directly associated with assets held for sale		-	-	-	-	-
Deposits and remittance		159,335,733	169,542,182	173,827,862	180,719,981	188,677,300
Other financial liabilities		-	-	-	-	-
Provisions		478,222	471,814	491,765	473,759	420,427
Deferred tax liabilities		81,387	73,721	55,482	50,135	59,890
Other liabilities		168,338	240,952	276,984	293,099	286,845
Total liabilities	Before payout	208,219,901	209,162,403	211,138,237	233,033,991	243,848,972
	After payout	210,021,753	209,733,020	212,857,589	234,754,713	Note 2
Equity attributable to shareholders of the parent			28,455,109	32,800,496	36,960,880	35,184,061
Capital stock	Before payout	12,012,343	12,012,343	11,512,343	11,512,343	11,512,343
	After payout	12,012,343	12,012,343	11,512,343	11,512,343	Note 2
Capital surplus			180,332	62,323	62,323	99,585
Retained earnings	Before payout	14,065,004	15,916,232	19,593,229	23,478,293	24,355,709
	After payout	12,263,152	15,345,615	17,873,877	21,757,571	Note 2
Other equity			1,319,176	1,762,241	2,037,561	(468,711)
Treasury shares			(972,974)	(129,640)	(129,640)	(314,865)
Noncontrolling interests			-	-	-	-
Total equity	Before payout	27,146,852	28,455,109	32,800,496	36,960,880	35,184,061
	After payout	25,345,000	27,884,492	31,081,144	35,240,158	Note 2

Note 1 : Financial data between 2014 to 2018 have been audited by CPAs.

Note 2 : The earning distribution proposal of year 2018 has not been resolved by shareholders.

VI. Financial Status

(c) Consolidated Condensed Income Statement

Unit: NTS 1,000

Item	Year	Five-Year Financial Data				
		2014	2015	2016	2017	2108
Interest income		6,331,857	6,508,388	6,227,659	6,232,248	6,872,966
Less: Interest expense		(1,378,258)	(1,428,961)	(1,324,638)	(1,431,778)	(1,855,473)
Net interest income		4,953,599	5,079,427	4,903,021	4,800,470	5,017,493
Net income and gains other than interest income		2,808,786	1,412,214	2,251,913	4,074,471	1,924,212
Available-for-sale financial assets impairment		2,422	(368,937)	369,825	130,504	59,109
Gross income		7,764,807	6,122,704	7,524,759	9,005,445	7,000,814
Allowances lodged for bad debt expenses and guarantee responsibilities		(114,470)	(52,633)	(111,058)	(670,584)	(1,643,112)
Operating expenses		(1,616,949)	(1,609,509)	(1,833,880)	(1,874,278)	(1,784,391)
Net income from continuing operations before income tax		6,033,388	4,460,562	5,579,821	6,460,583	3,573,311
Income tax (expense) benefit		(837,034)	(777,808)	(798,363)	(850,049)	(695,510)
Net income from continuing operations		5,196,354	3,682,754	4,781,458	5,610,534	2,877,801
Profit or loss of discontinued operations		-	-	-	-	-
Consolidated net income(loss) for the period		5,196,354	3,682,754	4,781,458	5,610,534	2,877,801
Other comprehensive income for the period, net of income tax		(555,624)	398,743	423,634	269,202	(3,303,535)
Total comprehensive income for the period		4,640,730	4,081,497	5,205,092	5,879,736	(425,734)
Net income attributable to shareholders of the parent		5,196,354	3,682,754	4,781,458	5,610,534	2,877,801
Net income attributable to noncontrolling interests		-	-	-	-	-
Total comprehensive income attributable to shareholders of the parent		4,640,730	4,081,497	5,205,092	5,879,736	(425,734)
Total comprehensive income attributable to noncontrolling interests		-	-	-	-	-
Earnings per share (EPS)		4.33	3.09	4.17	4.89	2.51

Note: Financial data between 2014 to 2018 have been audited by CPAs.

(d) Condensed Income Statement

Unit: NTS 1,000

Item	Year	Five-Year Financial Data				
		2014	2015	2016	2017	2018
Interest income		6,331,857	6,502,846	6,209,013	6,162,590	6,729,884
Less: Interest expense		(1,379,061)	(1,429,607)	(1,323,391)	(1,423,685)	(1,836,231)
Net interest income		4,952,796	5,073,239	4,885,622	4,738,905	4,893,653
Net income and gains other than interest income		2,738,389	1,322,830	2,099,168	4,009,192	1,886,193
Available-for-sale financial assets impairment		2,422	(368,937)	369,825	130,504	59,109
Gross income		7,693,607	6,027,132	7,354,615	8,878,601	6,838,955
Allowances lodged for bad debt expenses and guarantee responsibilities		(114,470)	(46,933)	(59,645)	(639,497)	(1,606,593)
Operating expenses		(1,593,677)	(1,581,235)	(1,797,290)	(1,838,849)	(1,727,785)
Net income from continuing operations before income tax		5,985,460	4,398,964	5,497,680	6,400,255	3,504,577
Income tax (expense) benefit		(789,106)	(716,210)	(716,222)	(789,721)	(626,776)
Net income from continuing operations		5,196,354	3,682,754	4,781,458	5,610,534	2,877,801
Profit or loss of discontinued operations		-	-	-	-	-
Consolidated net income(loss) for the period		5,196,354	3,682,754	4,781,458	5,610,534	2,877,801
Other comprehensive income for the period, net of income tax		(555,624)	398,743	423,634	269,202	(3,303,535)
Total comprehensive income for the period		4,640,730	4,081,497	5,205,092	5,879,736	(425,734)
Net income attributable to shareholders of the parent		4.33	3.09	4.17	4.89	2.51

Note : Financial data between 2014 to 2018 have been audited by CPAs.

(e) Name of the CPAs and their Audit Opinion

Year	2014	2015	2016	2017	2018
Audit Accountants	Shih-Chieh, Huang, Wen-Fang Fu	Shih-Chieh, Huang, Wen-Fang Fu	Tzu-Jen Hu, Cheng-Tao Chang	Tzu-Jen Hu, Cheng-Tao Chang	Tzu-Jen Hu, Cheng-Tao Chang
Audit Opinion	Standard unqualified audit opinion	Standard unqualified audit opinion	Unqualified Opinion	Unqualified Opinion	Unqualified Opinion (Emphasis or other matters)

B. Financial Analysis and Capital Adequacy for Recent Five Years

(a) Consolidated Financial Analysis

Unit: NTS 1,000

Item	Year	Five-Year Financial Data				
		2014	2015	2016	2017	2018
Management ability	Deposit/loan ratio (%)	77.55	74.13	72.67	80.49	82.04
	NPL ratio (%)	0.03	0.03	0.02	0.02	0.02
	Interest income/average outstanding deposit ratio (%)	0.83	0.87	0.77	0.81	1.02
	Interest income/average outstanding loans ratio (%)	5.45	5.22	4.88	4.62	4.44
	Turnover rate of total assets (times)	0.033	0.027	0.031	0.033	0.025
	Revenue per employee	8,761	7,149	7,871	9,351	7,129
	Profit per employee	5,865	4,056	5,002	5,826	2,931
Profit-making capability	Returns on tier 1 capital (%)	25.32	17.20	19.45	19.84	10.46
	Returns on assets (%)	2.31	1.56	1.99	2.18	1.04
	Returns on shareholder's equity (%)	20.20	13.25	15.61	16.08	7.98
	Net Profit rate (%)	66.94	56.73	63.54	62.30	41.11
	Earnings per share (NT\$1)	4.33	3.09	4.17	4.89	2.51
Financial structure	Liabilities/assets ratio (%)	88.44	87.99	86.51	86.32	87.45
	Property, plant, and equipment as a percentage of equity (%)	9.39	8.77	7.51	6.48	6.79
Growth rate	Asset growth (%)	9.95	0.96	2.75	11.10	3.66
	Profit growth (%)	26.68	(26.07)	25.09	15.78	(44.69)
Cash flow	Cash flow rate (%)	(37.32)	31.91	(10)	(49.75)	(13.67)
	Propriety of cash flow ratio (%)	401.47	415.73	361.36	280.31	145.75
	Cash-flow satisfaction ratio (%)	(710.84)	2,370.30	(247.81)	(3050.87)	16159.67
Liquid reserve ratio (%)	27.61	29.19	29.29	28.46	28.46	
Secured loans for related parties	304,131	215,205	181,243	166,103	202,990	
Share of outstanding secured loans for related parties in total outstanding loans (%)	0.25	0.17	0.14	0.11	0.13	
Business Scale	Market share of asset (%)	0.48	0.47	0.47	0.50	0.49
	Market share of book value (%)	0.86	0.83	0.91	0.98	0.88
	Market share of deposit (%)	0.51	0.51	0.51	0.51	0.52
	Market share of loans (%)	0.53	0.52	0.50	0.55	0.56
Explain the reasons for the changes in financial ratios in the last two years	<p>1. The increase in the ratio of interest expenses to the average annual deposit balance is due to the increase in interest rates due to the increase in US interest rates.</p> <p>2. The average income of employees, the average profit of employees, the profitability and the growth rate, the recognition of losses in the financial assets due to the sluggish domestic stock market and the net income of the employees decreased as compared with the same period of last year. The increase in the amount of bad debts resulted in a significant decrease in profit compared to the previous year, which resulted in a decrease in profitability and growth rate for the year compared to the previous year.</p> <p>3. The current cash flow ratio and cash flow satisfaction rate increased compared with the previous period. This is because the scale of lending and the increase of financial assets in this year are smaller than the previous period and the central bank and interbank deposits are reduced, resulting in a decrease in net cash outflow from operating activities compared with the previous year. .</p>					

Note: All financial data between 2014-2018 are all audited by CPAs.

VI. Financial Status

(b) Individual Financial Analysis

Unit: NTS 1,000

Item		Year	Five-Year Financial Data				
		2014	2015	2016	2017	2018	
Management ability	Deposit/loan ratio (%)	77.50	74.06	72.64	80.34	81.94	
	NPL ratio (%)	0.03	0.03	0.02	0.02	0.02	
	Interest income/average outstanding deposit ratio (%)	0.83	0.87	0.77	0.81	1.01	
	Interest income/average outstanding loans ratio (%)	5.45	5.22	4.87	4.57	4.35	
	Turnover rate of total assets (times)	0.033	0.027	0.030	0.033	0.025	
	Revenue per employee	8,760	7,154	7,841	9,465	7,169	
	Profit per employee	5,918	4,119	5,098	5,981	3,017	
Profit-making capability	Returns on tier 1 capital (%)	25.27	17.14	19.46	19.94	10.41	
	Returns on assets (%)	2.31	1.56	1.99	2.18	1.05	
	Returns on shareholder's equity (%)	20.20	13.25	15.61	16.08	7.98	
	Net Profit rate (%)	67.56	57.58	65.01	63.19	42.08	
	Earnings per share (NT\$1)	4.33	3.09	4.17	4.89	2.51	
Financial structure	Liabilities/assets ratio (%)	88.45	87.99	86.50	86.26	87.35	
	Property, plant, and equipment as a percentage of equity (%)	9.39	8.77	7.50	6.47	6.79	
Growth rate	Asset growth (%)	9.87	0.96	2.66	10.68	3.35	
	Profit growth (%)	26.84	(26.51)	24.98	16.42	(45.24)	
Cash flow	Cash flow rate (%)	(37.79)	32.71	(9.83)	(48.80)	(13.11)	
	Propriety of cash flow ratio (%)	398.43	420.24	365.88	146.78	145.75	
	Cash-flow satisfaction ratio (%)	(719.70)	(19,742.00)	(242.69)	(2929.60)	15221.43	
Liquid reserve ratio (%)		27.61	29.19	29.29	28.46	29.29	
Secured loans for related parties		304,131	215,205	181,243	166,103	202,990	
Share of outstanding secured loans for related parties in total outstanding loans (%)		0.25	0.17	0.14	0.11	0.13	
Business Scale	Market share of asset (%)	0.48	0.47	0.47	0.50	0.49	
	Market share of book value (%)	0.86	0.83	0.91	0.98	0.88	
	Market share of deposit (%)	0.51	0.51	0.51	0.51	0.52	
	Market share of loans (%)	0.53	0.52	0.50	0.55	0.56	
Explain the reasons for the changes in financial ratios in the last two years	<p>1. The increase in the ratio of interest expenses to the average annual deposit balance is due to the increase in interest rates due to the increase in US interest rates.</p> <p>2. The average income of employees, the average profit of employees, the profitability and the growth rate, the recognition of losses in the financial assets due to the sluggish domestic stock market and the net income of the employees decreased as compared with the same period of last year. The increase in the amount of bad debts resulted in a significant decrease in profit compared to the previous year, which resulted in a decrease in profitability and growth rate for the year compared to the previous year.</p> <p>3. The current cash flow ratio and cash flow satisfaction rate increased compared with the previous period. This is because the scale of lending and the increase of financial assets in this year are smaller than the previous period and the central bank and interbank deposits are reduced, resulting in a decrease in net cash outflow from operating activities compared with the previous year. .</p>						

Note: All financial data between 2014-2018 are all audited by CPAs.

The calculation method for the financial items listed in the (1). (2) financial analysis:

1、Management Capability

- (1) Deposit/loan ratio=total deposits/total loans
- (2) NPL ratio=Total NPL/total loans
- (3) Ratio of interest outlay in annual average of outstanding deposits=total interest outlay/annual average of outstanding deposits
- (4) Ratio of interest income in annual average of outstanding loans/Total interest income/annual average of outstanding loans
- (5) Turnover rate of assets=Net revenue/total assets value.
- (6) Revenue per employee =net revenue/total number of employees
- (7) Profit per employee=After-tax net profit/total number of employees

2、Profit-making capability

- (1) Returns on Tier I capital=pre-tax income/average Tier I capital.
- (2) Returns on assets=after-tax income/average value of assets
- (3) Returns on shareholders' equity=after-tax income/average value of net shareholders' equity
- (4) Net profit rate=after-tax income/net revenue
- (5) Earnings per share= (after-tax net profit-dividend for preferred shares/weighted average of issued shares)

3、Financial Structure

- (1) Ratio of liabilities in assets=total liabilities/total assets
- (2) Property, plant, and equipment as a percentage of equity= net value of real estate and equipment /net shareholders' equity

4、Growth Rate

- (1) Assets growth rate= (total assets in current year-total assets in previous year)/total assets in previous year
- (2) Profit growth= (Pre-tax income in current year-pre-tax income in previous year)/pre-tax income in previous year

5、Cash Flow

- (1) Cash flow ratio=net cash flow for business activities/(call loans and overdraft of bank and peers + promissory notes payable +financial liabilities from change in fair value + liabilities of repot bills and bonds + accounts payable due in one year)
- (2) Propriety ratio of net cash flow=net cash flow for business activities in recent five years/ (capital outlay + cash dividend) in recent five years
- (3) Satisfactory rate for cash flow=net cash flow for business activities/net cash flow for investments

6、Liquid reserves ratio=liquid assets required by the Central Bank of China/required liquid reserves for various liabilities

7、Analysis of business scale

- (1) Market share of assets=total assets/total assets of financial institutions capable of undertaking deposit/loan business
- (2) Market share of book value=book value/total book value of financial institutions capable of undertaking deposit/loan business
- (3) Market share of deposits=total deposits/total deposits of financial institutions capable of undertaking deposit/loan business
- (4) Market share of loans=total loans/total loans of financial institutions capable of undertaking deposit/loan business

VI. Financial Status

(c) Consolidated Capital Adequacy Ratio

Unit: NTS 1,000 ; %

Item		Year	Capital adequacy data in recent five years					
			2014	2015	2016	2017	2018	
Capital	Common equity		25,081,589	26,791,644	30,567,318	34,540,390	33,752,396	
	Additional tier 1 capital		0	0	0	0	0	
	Tier 2 capital		1,352,353	941,833	1,286,745	1,371,984	670,827	
	Capital		26,433,942	27,733,477	31,863,063	35,912,374	34,423,223	
Risk Weighted Assets	Credit risk	Standardized approach	156,483,411	159,808,610	172,253,077	189,364,260	197,892,405	
		Internal rating based approach (IRB)	0	0	0	0	0	
		Asset securitization	0	0	16,802	0	0	
	Operating risk	Basic indicator approach (BIA)	10,662,451	11,660,108	12,491,079	13,659,885	13,772,518	
		Standardized approach / Optional Standardized approach	0	0	0	0	0	
		Advanced approach	0	0	0	0	0	
	Market risk	Standardized approach	23,878,835	15,931,443	13,318,991	24,201,891	30,537,017	
		Internal model approach	0	0	0	0	0	
	Total risk weighted assets			191,024,697	187,400,161	198,079,949	227,226,036	242,201,940
	Capital adequacy ratio			13.84%	14.80%	16.09%	15.80%	14.21%
Tier 1 capital to risk weighted assets ratio			13.13%	14.30%	15.44%	15.20%	13.94%	
Common equity to risk weighted assets ratio			13.13%	14.30%	15.44%	15.20%	13.94%	
Leverage ratio			-	10.28%	11.71%	11.95%	11.17%	
Please explain the reasons for the change in the capital adequacy ratio in the past two years (if the increase or decrease is less than 20%, the analysis may be exempted): The capital adequacy ratio has not changed by more than 20% in the past two years, so it is exempt from analysis.								

Note: the above five-year financial data are numbers adjusted by CPAs.

(d) Individual Capital Adequacy

Unit: NTS 1,000 ; %

Item		Year	Capital adequacy data in recent five years					
			2014	2014	2014	2014	2014	
Capital	Common equity		24,931,227	26,384,973	30,127,483	34,063,996	33,293,116	
	Additional tier 1 capital		0	0	0	0	0	
	Tier 2 capital		1,201,992	535,163	837,909	885,604	211,547	
	Capital		26,133,219	26,920,136	30,965,392	34,949,600	33,504,663	
Risk Weighted Assets	Credit risk	Standardized approach	156,365,748	159,432,129	171,480,858	187,587,490	195,257,564	
		Internal rating based approach (IRB)	0	0	0	0	0	
		Asset securitization	0	0	16,802	0	0	
	Operating risk	Basic indicator approach (BIA)	10,616,264	11,552,161	12,384,281	13,437,529	13,510,439	
		Standardized approach / Optional Standardized approach	0	0	0	0	0	
		Advanced approach	0	0	0	0	0	
	Market risk	Standardized approach	23,878,835	15,931,443	12,955,691	23,492,259	29,882,439	
		Internal model approach	0	0	0	0	0	
	Total risk weighted assets			190,860,847	186,915,733	196,837,632	224,517,278	238,650,442
	Capital adequacy ratio			13.69%	14.40%	15.73%	15.57%	14.04%
Tier 1 capital to risk weighted assets ratio			13.06%	14.12%	15.31%	15.17%	13.95%	
Common equity to risk weighted assets ratio			13.06%	14.12%	15.31%	15.17%	13.95%	
Leverage ratio			-	10.13%	11.56%	11.85%	11.11%	
Please explain the reasons for the change in the capital adequacy ratio in the past two years (if the increase or decrease is less than 20%, the analysis may be exempted): The capital adequacy ratio has not changed by more than 20% in the past two years, so it is exempt from analysis.								

- Note : 1、the above five-year financial data are numbers adjusted by CPAs.
 2、The above-mentioned (3) and (4) self-owned capital, weighted risk assets and total risk insurance in the capital adequacy table should be based on the “Regulations Governing the Capital Adequacy and Capital Category of Banks” and “Calculation method and forms for calculating bank ‘self-asset and risk assets””.
 3、The aforementioned ratios are calculated as follows :
 (1) Capital base = Common equity + Additional tier 1 capital + Tier 2 capital.
 (2) Risk weighted assets = Credit risk weighted assets + (Operation risk Capital + Market risk Capital) × 12.5.
 (3) Capital adequacy ratio = Capital / Risk weighted assets
 (4) Tier 1 capital to risk weighted assets = (Common equity + Additional tier 1 capital) / Risk weighted assets
 (5) Common equity to risk weighted assets ratio = Common equity / Risk weighted assets
 (6) Leverage ratio= Tier 1 Capital / Total risk exposure
 4、The Leverage Ratio is a required disclosure from financial year 2015.

C. Audit Report on 2018 Financial Statements by Audit Committee

**King’s Town Bank Co. Ltd.
 Audit Committee Audit Report**

The Bank’s 2018 individual and consolidated Financial Statement have been completely audited by the CPA firm of Ernst & Young Taiwan . The Business Report, Financial Statement and Profit allocation proposal have been reviewed and determined to be correct and accurate by the undersigned, the Audit Committee members of King’s Town Bank Co. Ltd. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

To
 2019 Annual Shareholders’ Meeting

Audit Committee:
 Convener:



February, 25, 2019

D. 2018 Financial Statements

For 2018 CPA audit report, financial statement and notes, please refer to Appendix 1 of the Annual report on page 105.

E. The Bank’s financial statements audited by CPAs for 2018

For the Bank’s 2018 financial statements audited by CPAs, please refer to Appendix 2 of the Annual report on page 226.

F. The impact of financial turnover difficulties of the Bank and its related enterprise to the financial situation of the Bank: None.

VII. Analysis on Financial Status and Financial Performance and risk management items

A. Financial Status

Unit: NTS 1,000

Item	Year	2017	2018	Differences	
				Amount	%
Cash and cash equivalents, Due from the Central Bank and call loans to other banks		18,978,280	18,187,099	(791,181)	(4.17%)
Financial assets at fair value through profit or loss		21,606,855	31,786,797	10,179,942	47.11%
Financial assets at fair value through other comprehensive profit or loss		-	53,487,356	53,487,356	-
Debt instrument investment measured by amortized cost		-	17,597,996	17,597,996	-
Bonds and securities purchased under resell agreements		2,565,772	624,167	(1,941,605)	(75.67%)
Receivables, net		2,669,418	3,642,416	972,998	36.45%
Discount and Loans, net		142,947,865	152,229,752	9,281,887	6.49%
Available-for-sale financial assets		59,078,492	-	(59,078,492)	-
Held-to-maturity financial assets		17,600,000	-	(17,600,000)	-
Other financial assets, net		2,309,637	4,705	(2,304,932)	(99.80%)
Property and Equipment, net		2,393,890	2,388,923	(4,967)	(0.21%)
Deferred tax assets, net		275,018	266,927	(8,091)	(2.94%)
Other assets		751,034	878,581	127,547	16.98%
Total assets		271,176,261	281,094,719	9,918,458	3.66%
Due to Central Bank and other banks		22,269,428	19,937,251	(2,332,177)	(10.47%)
Loans from The Central Bank and other banks		5,315,680	3,438,640	(1,877,040)	(35.31%)
Financial liabilities at fair value through profit or loss		127,902	25,784	(102,118)	(79.84%)
Bonds and securities sold under repurchase agreements		21,359,805	29,316,496	7,956,691	37.25%
Payables		2,431,811	2,311,881	(119,930)	(4.93%)
Current tax liabilities		564,198	404,846	(159,352)	(28.24%)
Deposits and remittance		180,388,401	188,432,924	8,044,523	4.46%
Other financial liabilities		900,000	1,230,000	330,000	36.67%
Provisions		473,759	420,427	(53,332)	(11.26%)
Deferred tax liabilities		50,135	59,890	9,755	19.46%
Other liabilities		334,262	332,519	(1,743)	(0.52%)
Total liabilities		234,215,381	245,910,658	11,695,277	4.99%
Capital		11,512,343	11,512,343	0	-
Capital surplus		62,323	99,585	37,262	59.79%
Retained earnings		23,478,293	24,355,709	877,416	3.74%
Other equity		2,037,561	(468,711)	(2,506,272)	(123.00%)
Treasure shares		(129,640)	(314,865)	(185,225)	142.88%
Total equity		36,960,880	35,184,061	(1,776,819)	(-4.81%)

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Difference description:

1. Financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive gains and losses, investment in debt instruments measured at amortized cost over the previous period, and financial assets held for sale, held to maturity date Financial assets and other financial assets-net decreased from the previous period, mainly due to the application of IAS 9 in the current year and the reclassification of financial assets.
2. The increase in accounts receivable was the operating lease business of the subsidiaries, and the growth in business volume was due to the increase in the amount of notes receivable from the previous period.
3. The decrease in financial liabilities measured at fair value through profit or loss is mainly due to the decrease in the current foreign exchange rate adjustment adjustments compared to the previous period.
4. The current income tax liabilities decreased, mainly due to the decrease in profit during the period compared with the previous period.
5. Changes in other financial liabilities the current period was mainly due to the increase in the amount of commercial promissory notes payable by subsidiaries due to capital requirements.
6. Capital reserves and treasury stocks During the period, the changes were mainly due to the purchase of treasury shares for the protection of corporate credit and shareholders' equity.
7. Other equity Changes in the current period were mainly due to the poor environment of the overseas debt market and the provision of more evaluation losses.

B. Financial Performance

Unit: NTS 1,000 ; %

Item	Year	2017	2018	Changes Increase (decrease)	
				Amount	Ratio (%)
Net interest income		4,800,470	5,017,493	217,023	4.52%
Net income other than interest		4,074,471	1,924,212	(2,150,259)	(52.77%)
Reverse gain (loss) asset impairment		130,504	59,109	(71,395)	(54.71%)
Allowances lodged for bad debt expenses and guarantee responsibilities		(670,584)	(1,643,112)	972,528	145.03%
Operating Expenses		(1,874,278)	(1,784,391)	(89,887)	(4.80%)
Net income from continuing operations before income tax		6,460,583	3,573,311	(2,887,272)	(44.69%)
Net income from continuing operation units		5,610,534	2,877,801	(2,732,733)	(48.71%)
Profit or loss of discontinued operations		-	-	-	-
Total comprehensive profit for the period (loss)		5,610,534	2,877,801	(2,732,733)	(48.71%)

Difference analysis:

1. The decrease in net income other than interest was due to the decrease in investment income of financial assets market due to the decrease in investment income from the previous period.
2. Asset impairment reversal profit decreases from the previous period was due to the decrease in the amount of impairment reversal of overseas bond losses
3. The provision for bad debts and guarantees for the increase of guarantees was increased from the previous period. This is due to the maintenance of good asset quality and long-term stable operation, and the increase in the amount of bad debts.

C. Cash Flow

(a) Liquidity Analysis for the recent two years

Item	2017.12.31	2018.12.31	Increase/decrease ratio (%)
Cash flow rate	(49.75)	(13.67)	72.52
Propriety of cash flow ratio	280.31	145.75	(48.00)
Cash-flow satisfaction ratio	(3050.87)	16159.67	629.67

Analysis of the increase and decrease of the proportion of changes:

1. The current cash flow ratio and cash flow satisfaction rate increased compared with the previous period. This is due to the decrease in the scale of lending and the increase in financial assets in the current year and the decrease in the central bank and interbank deposits, resulting in a decrease in net cash outflow from operating activities compared with the previous year.
2. The cash flow ratio is lower than the previous period, which is due to the decrease in net cash flow from operating activities in the last five years.

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

(b) Cash Liquidity Analysis for the coming year

Unit: NT\$ 1,000

Opening Cash Balance (1)	Estimated net cash flow from operating activities for the whole year (2)	Estimated annual cash flow (3)	Cash surplus (insufficient) amount (1) + (2) + (3)	Remedial measures for insufficient cash	
				Investment Plan	Financial Plan
13,496,670	4,273,701	1,681,649	19,452,020	-	-

D. Impact of major capital expenditures on finance business in 2018

- (a) Major capital expenditure utilization status and capital source: None.
 (b) Expected benefit: None.

E. 2018 reinvestment policy, the main reason for its profit or loss, improvement plan and investment plan for the next year

(a) Reinvestment Policy

Meet the needs of the Bank's long-term operational development, carrying out investing and assessing activities for potential investment opportunities, effectively diversifying business risks and improving overall profitability.

(b) Main reason for the profit or loss of reinvestment

In 2018, the main source of profit from the annual investment business is the cash dividend income and operating performance feedback issued by the reinvestment company. In the future, if there is appropriate investment target or investment in government policies and other factors, it will be handled after careful evaluation and relevant procedures.

(c) Improvement plan

Each quarter of the Bank updates the operating efficiency and financial performance of the transfer company and presents an annual performance appraisal report to understand and monitor the operating dynamics of the transfer company.

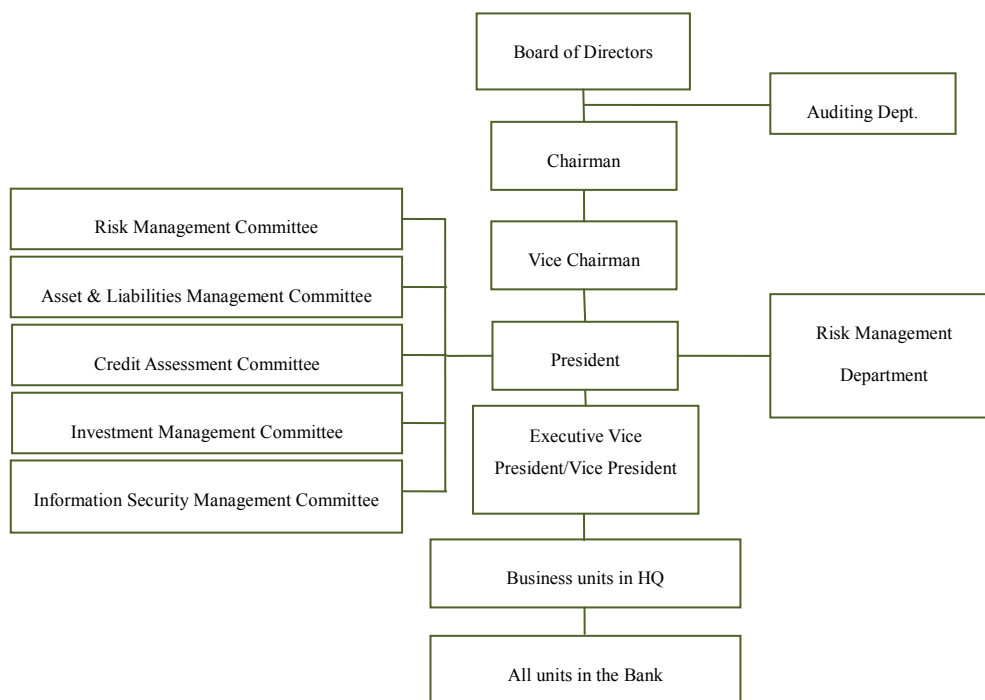
(d) Investment plan for coming year

In the future, if there is an appropriate investment target or investment in government policies and other factors, it will be carefully evaluated and processed according to relevant procedures.

F. Risk Management

(a) Organization Structure and Policy of the Bank’s Risk Management

1、Risk Management Organizational Structure



(1) Risk Management Committee

In order to improve the risk management mechanism, improve various risk management, avoid all possible adverse effects on the Bank, and seek to maximize profits with limited risks, a risk management committee is hence established, with the president as the chairman, members are the heads or officers from the finance department, digital service and business department, the risk management department, the credit review department, the administrative management department, international business department, the legal compliance department, the operation management department, and other department or personnel designated by the president. The chief auditor is present at the committee but not in the voting. This meeting is held once a month as its principle. Its main tasks are as follows:

1. Amendment to the Bank’s risk management policy.
2. Coordinate the risk management issues such as credit risk, market risk and operational risk of the whole bank.
3. Review the ratio of the Bank's own capital to risk assets (referred to as capital adequacy ratio).
4. To handle and review major risk accidents and out of authorization incidents.
5. Major issues or issues related to risk management proposed by each unit.
6. Matters assigned by the board of directors or the chairman and vice chairman.

(2) Asset and Liabilities Management Committee

The Asset and Liability Management Committee of the Bank is chaired by the president. The members are composed of the designated personnel of the president, the heads of Digital Service and Business Department, the Risk Management Department, the Finance Department, and the administrative management Department. In response to the domestic and foreign financial situation, they are responsible for the timely adjustment of the business strategy, maintain liquidity, safety and profitability, hold regular meetings, and the meeting convene once a month. The main tasks are as follows:

1. Assess the impact of political and economic situation changes at home and abroad and the trend of government policies on financial business operations.
2. Predict the impact of domestic and foreign funds, exchange rates, interest rate trends and other relevant financial indicators on the Bank's operations.
3. Evaluate the Bank's operating performance, capital situation, asset and liability risk position and interest rate sensitivity, as well as the study and adjustment for the optimal ratio for assets and liabilities.
4. Evaluate the Bank's deposit and lending rate pricing strategy.
5. Estimate the Bank's future operating performance and moderately adjust the Bank's business strategy.
6. Matters assigned by the board of directors or the chairman and vice chairman.

(3) Credit Examination Committee

The credit review committee is presided over by the president and consists of the department headed of the credit review department, risk management department, digital service and business department, and personnel designated by the president to strengthen the review on credit business and risk control to ensure the creditor's rights of the bank. In principle, it will be held once a week to review the credit granting cases of the board of directors, and the results of the review will be submitted to the Board of Director for approval. The consolidation and transfer of the cases will be handled by the credit review department.

(4) Investment Management Committee

In order to respond to changes in domestic and foreign financial situations, timely adjust investment strategies, and control investment risks to maintain the safety and profitability of investment positions across the bank, the "Investment Management Committee" was established as the highest guiding unit for the Bank's investment business. The investment management committee is chaired by the president, and the members are headed of the finance department and other personnel appointed by the president. This meeting is held once a month in principle. Its main tasks are as follows:

1. According to the domestic and international political and economic situation changes and the trend of government policies, the committee sets the Bank's investment strategies and principles.
2. Evaluate whether the performance of the investment portfolio meets the expected objectives, and predict the impact of changes in domestic and foreign capital situation, exchange rate, interest rate and other relevant financial indicators on the investment position of the Bank, and whether the investment strategy needs to be adjusted.
3. Review the proportion, allocation and reinvestment of various financial investment projects.
4. review the source of funding and cost structure of the investment.

(5) Information Security Management Committee

To improve the information security management system, in response to all information security related laws and regulations, and comply with the relevant government regulations, and seek to reduce the risk impact and impact of the Bank's information security, the special "Information Security Management Committee." The Association shall set up a convener who shall be appointed or appointed by the president. The members shall be the heads or appointed by the heads of the Risk Management Department, Information Office, Digital Service and Business Department, and the Regulatory Compliance Department. The audit office may attend the committee but not participate in the voting. The meeting will hold meetings from time to time as needed. The main tasks are as follows:

1. Propose the Bank's information security policy.
2. Promotion of the information security management system.
3. Assessment of the infrastructure of the information security management system.
4. Handling and review of major information security incidents.
5. Major issues or issues related to information security raised by each unit.
6. Discussion of other information security issues.

2、Risk Management Policy

The Bank has established policies and methods based on different risks, such as "credit policy", "credit review and authorization methods", "risk management measures", etc., and then set management guidelines according to policies and methods. For example, in accordance with the "Risk Management Measures", the "Credit Risk Management Guidelines", "Market Risk Management Guidelines" and "Operational Risk Management Guidelines" are established. Build a capital adequacy assessment process in line with the risk profile to maintain adequate capital. In addition, consider the overall risk insurance, carry out appropriate overall capital allocation, and establish management mechanisms for various business risks to strengthen business performance.

3、Information Security Policy

To protect the confidentiality, integrity and availability of the Bank's information assets, including personnel, equipment, systems, information, materials and networks, from external threats or improper management of internal personnel, or the possibility of the information to be compromised, destroyed or lost, etc. Hence, the "Information Security Policy" is specially formulated, and relevant measures and key points are formulated in accordance with the policy to facilitate the compliance of all employees, outsourcing service providers and visitors of the Bank.

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

(b) Qualitative and quantitative information on various risks

1、Credit risk management system and accrued capital

Credit Risk Management System

2018

Item	Contents
<p>1. Credit risk strategies, goals, policies and processes</p>	<p>1、Credit risk strategy Appropriate adjustments should be made in response to changes in the Bank's operating environment and risks; consider the impact of the economic cycle on the content and quality of the overall credit portfolio to ensure that all significant credit risks are covered.</p> <p>2、Credit Risk Objective Maintain adequate capital and create maximum risk-adjusted returns within the Bank's affordable credit risk.</p> <p>3、Credit Risk Policy The Bank has a "credit policy" to properly plan and control the credits of the same natural person, the same legal person, the same public enterprise, the same related person, the same related enterprise, and the same group enterprise; The upper limit is set (the same public enterprise shall not exceed the net value of the Bank, and the same group enterprise shall adjust the quota according to its credit rating, Cmoney financial credit rating and outlook) to control the single credit risk and improve the efficiency of fund utilization; The balance accounts for the ratio of the Bank's total credit balance. According to the industry and the overall economy, the approved quotas are adjusted with reference to the industry's over-disbursement ratio and future prosperity. In order to strengthen the credit risk control of overseas and mainland regions in various industries, the industry limits for overseas and mainland regions are set. The ratio of the total credit balance secured by residential real estate to the total credit balance of the Bank is divided into housing repair and working capital limit control by fund use, and the credit direction is dynamically adjusted to avoid the overall risk and avoid excessive credit risk. concentrated.</p> <p>4、Credit Risk Procedure In order to maintain a safe and sound credit business and control credit risk, when planning various businesses, establish a credit risk control mechanism, which is implemented in accordance with procedures such as identification, measurement, communication and monitoring. Under the tiered and responsible credit management organization structure, each level is subject to the review of the cases within the jurisdiction of the "Regulations governing credit review and authorization" to ensure the quality of the credit assets; and the "Directors for credit review" is established, and the credit review department of the head office Responsible for handling, strengthen post-loan management, in order to effectively control credit risk. In addition, the "Regulations governing asset assessment loss provision and overdue loan collection and payment" will be formulated to establish an asset quality assessment, loss provision, an overdue loan collection and a bad debt cancellation system and procedures. In accordance with the provisions of the competent authorities and the Bank's laws and regulations, in order to speed up the clean-up of bad debts and reduce overdue loans, the Bank has established a "Regulations governing bad debts" to achieve a sound financial structure and enhanced asset and liability management.</p>
<p>2. Credit Risk Management Organization and Structure</p>	<p>1、The Board of Directors is the highest decision-making level of credit risk management of the Bank and has ultimate responsibility for the Bank's credit risk management. °</p> <p>2、The Risk Management Committee is responsible for implementing the credit risk management decisions approved by the Board of Directors, reviewing credit risk regulations and coordinating relevant credit risk management issues, and continuously monitoring the performance of risk management execution.</p> <p>3、The credit review committee is responsible for reviewing the credit granting cases of the board of directors and submitting the results of the review to the board of directors for approval. Aggregated account is at the approval level of the board of directors and the credit approval case originally approved by the board of directors, the interest rate and rate adjustment are authorized to credit review committee to adjust it as appropriate and report it to the board of directors for verification</p>

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Item	Contents
	<p>on a monthly basis</p> <p>4、The Risk Management Department is responsible for planning, establishing and integrating the Bank's credit risk management operations, implementing the overall credit risk management monitoring of the Bank, and regularly summarizing the Bank's credit risk information reporting risk management committee and the Board of Directors; and appropriate credit risk capital and make risk information are disclosure according to the regulations of competent authority.</p> <p>5、The competent business units of the head office are responsible for setting and managing the credit risk regulations and operation procedures of the businesses under their jurisdiction, and monitoring their implementation, assisting the risk management department to complete the control of credit risk of the whole bank. The competent business units of the head office should identify and manage the credit risk of all financial products and ensure that risk control mechanisms are in place before engaging in new types of commodities or transactions.</p> <p>6、All units in the Bank are responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Follow the Bank's credit, credit and management regulations related to credit risk, conduct daily operations and credit risk management, and report to relevant units in a timely manner as required. The control of credit risk should be combined with daily operations and the correctness and completeness of each operation data should be confirmed.</p> <p>7、The credit rating committee of the business unit is responsible for the credit granting case within the authority authorized by the unit, convening a credit review meeting, and strengthening the review of the credit business to ensure creditor's rights and risk control.</p>
<p>3. The scope and characteristics of credit risk reporting and measurement systems</p>	<p>The Bank has established "Credit Risk Management Guidelines" based on the overall risk management policy. In addition, each type of risk is classified, credit risk assets are calculated, and the risk control report is reported to the board of directors every quarter. The content and scope are:</p> <p>1、Transaction counterparty's credit limit control (for the same natural person, the same legal person, the same related person, the same related enterprise, the same group enterprise, the same industry)</p> <p>2、Credit risk concentration control (monitoring the top 20 creditors)</p> <p>3、Analysis of credit business structure (according to the type of loan)</p> <p>4、Asset quality (overdue loan, overdue ratio, allowance for bad debts, coverage)</p> <p>The credit risk measurement system is divided into maintenance work such as credit rating, maintenance work of weighted risk assets in the table, and so on.</p>
<p>4. Credit risk hedging or risk-reduction policies, and strategies and processes for monitoring avoidance and risk-reduction tools for continued effectiveness</p>	<p>1、When dealing with credit risk related business, assess the probability of the event or transaction may result in default and the amount of loss, adopt risk avoidance - high probability of default and large loss, risk offset or transfer - low probability of default and loss amount Large, risk control - high probability of default and small amount of loss, risk-taking - the probability of default is small and the amount of loss is small. Set limits for the same natural person, the same legal person, the same related person, the same related enterprise, the same group enterprise, the same industry, etc., in order to avoid excessive concentration of risks. Add credit restrictions, collect collateral, guarantor or transfer to the letter of guarantee fund to strengthen the Bank's credit guarantee.</p> <p>2、For the verification of the collateral and the verification of the collateral on a regular or irregular basis, verify the credit and collateral revaluation according to the status quo of the credit guarantee, and assess the degree of assurance provided by the creditor and the legal effect of the guarantor. Ensure the effectiveness of credit protection. And regularly maintain and develop a credit risk management system based on business and risk tolerance to ensure continuous and effective operation.</p>
<p>5. Method of adopting statutory capital accrual</p>	<p>Standardized approach</p>

Note: Bank adopting to standardized approach is applicable to this table.

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Risk exposure and Capital Charge after risk deduction under Standardized Approach of Credit
December 31, 2018

Unit:NT\$ 1,000

Risk exposure Type	Risk exposure after risk deduction	Capital Charge provide be allocated
Sovereign state	41,643,043	0
Non-central government public sector	0	0
Bank (including multilateral development banks)	24,562,766	620,434
Enterprises (including securities and insurance companies)	162,202,463	12,286,458
Retail claims	27,691,641	2,000,145
Residential real estate	9,991,812	448,022
Equity investment	16,985	1,359
Other Assets	6,031,760	263,256
Total	272,140,469	15,619,674

2、Asset securitization risk management system, risk exposure and capital charge that should be provided
Securitization risk management system

2018

Item	Contents
1. Securitization management strategy and process	<p>【Transaction Book】:</p> <p>1、In order to follow through on risk management, the Bank, when investing securitized commodities in the investment trading book (such as real estate investment trusts (REITs), etc.), investment decisions and process management are carried out in accordance with the relevant security investment regulations of the Bank.</p> <p>2、The Bank currently does not assume the roles of founding bank, service organization, and credit enhancement agency. In the future, if the Bank want to handle related business, it must first establish relevant management policies.</p> <p>【Banking Book】:</p> <p>The Bank currently does not invest in securitized products listed in the banking book and has not acted as a founding bank.</p>
2. Securitization management organization and structure	<p>【Transaction Book】:</p> <p>1、The Bank has a “Risk Management Committee” that is responsible for implementing the risk management decisions approved by the Board of Directors and overseeing the performance of risk management execution. In addition, the Asset and Liability Management Committee will be held regularly to review the Bank's capital operation and investment operations strategies. Regularly convene “Investment Management Committee” to adjust investment strategies and control investment risks in a timely manner in response to changes in domestic and foreign financial conditions to maintain the safety and profitability of investment positions across the bank.</p> <p>2、When the Bank's investment transactions in securitized commodities (such as real estate investment trusts (REITs), etc.), for the risks arising, the Bank control the risks by using the risk management organizations and structures according to credit and market.</p> <p>【Banking Book】:</p> <p>The Bank currently does not invest in securitized products listed in the banking book and has not acted as a founding bank.</p>
3. The scope and characteristics of the securitization risk report and measurement system	<p>【Transaction Book】:</p> <p>The asset securitization products of the Bank's investment transaction book (such as real estate investment trust beneficiary securities (REITs), etc.) are evaluated daily, for the risks arising, the Bank control the risks by using the risk management organizations and structures according to credit and market. Measure and risk exposure control report to the board of directors on a quarterly basis.</p>

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Item	Contents
	<p>【Banking Book】:</p> <p>The Bank currently does not invest in securitized products listed in the banking book and has not acted as a founding bank.</p>
4. Securitization hedging or risk-reduction policies, and strategies and processes for monitoring avoidance and risk-reduction tools for continued effectiveness	<p>【Transaction Book】:</p> <p>1、The Bank currently does not assume the roles of founding bank, service organization, and credit enhancement agency. In the future, if the Bank want to handle related business, it must first establish relevant management policies.</p> <p>2、The current risk-based avoidance of credit, market and other related risk specifications - high probability of default and large loss, risk offset or transfer - low probability of default and large amount of loss, risk control - high probability of default and small amount of loss, Risk taking - countermeasures such as low probability of default and small amount of loss.</p> <p>【Banking Book】:</p> <p>The Bank currently does not invest in securitized products listed in the banking book and has not acted as a founding bank.</p>
5. The method adopted by the statutory capital accrual	<p>【Transaction Book】:</p> <p>Market Risk is using standardized approach</p> <p>【Banking Book】:</p> <p>The Bank currently does not invest in securitized products listed in the banking book and has not acted as a founding bank.</p>

Securitization Risk Exposure and Capital Charge that should be provided
December 31, 2018

Unit:NT\$1,000

Bank Role	Exposure Type Book	Asset Type	Traditional Type				Capital Charge provided	Combination type		Total		
			Risk Exposure					Risk exposure Reserved or Buy	Capital Charge provided	Risk exposure (5)=(1)+(3)	Capital Charge provided (6)=(2)+(4)	Capital should be accrued before securitization
			Reserved or Buy	Provide liquid financing	Provide Credit enhancing	Total (1)						
Non-founding Bank	Banking Book		0	0	0	0	0	0	0	0	0	0
	Transaction Book		0	0	0	0	0	0	0	0	0	0
	Total		0	0	0	0	0	0	0	0	0	0
Founding Bank	Banking Book		0	0	0	0	0	0	0	0	0	0
	Transaction Book		0	0	0	0	0	0	0	0	0	0
	Total		0	0	0	0	0	0	0	0	0	0
Total			0	0	0	0	0	0	0	0	0	0

Note :

- 1、In the “asset type” column, the type of assets to be securitized (such as credit card, home equity loan, car loan), or the type of securities invested (such as mortgage-based securities, commercial real estate-based securities, asset-based securities, and secured claims) Subdivisions such as voucher). RMBS is a home loan credit securitization beneficiary securities or asset-based securities, and REITs are real estate investment trust beneficiary securities.
- 2、The amount of the risk exposure of the banking book is filled in with the exposure after risk reduction.
- 3、The “Providing Liquidity Financing Amount” column includes the amount of the insured and unallocated exposure.

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

3、Operation risk management system and the capital charge that should be provided.

Operation Risk Management System

2018

Item	Contents
1. Operation risk management strategies and processes	<p>1、Operation Risk Management Strategy Make appropriate adjustments in response to the changes in the Bank's operating environment and risk faced, maintaining consistency between the Bank's operation strategy with objectives, and cover all important operation risks associated with the business.</p> <p>2、Operation risk management process Establish an operation risk management mechanism to identify, measure, communicate and monitor all operation risks that may arise from all day-to-day operational activities and management processes.</p>
2. Operation risk management organization and structure	<p>1、The Board of Directors is the highest decision-making level of the Bank's operational risk management and assume the ultimate responsibility for the Bank's operational risks.</p> <p>2、The Risk Management Committee is responsible for implementing the operational risk management decisions approved by the Board of Directors, reviewing operational risk regulations, and continuously monitoring the performance of risk management execution.</p> <p>3、The Risk Management Department is responsible for planning, establishing and integrating the Bank's operational risk management, and regularly summarizing the Bank's operational risk information and report to risk management committee</p> <p>4、The competent business units of the head office are responsible for setting and managing the operational risk regulations and operation procedures of the business under their jurisdiction, and monitoring their implementation, assisting the risk management department to complete the control of the operation risk of the whole bank.</p> <p>5、All units in the Bank are responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Follow the relevant regulations of the Bank's operational risk management to conduct daily operations and operation risk management.</p>
3. The scope and characteristics of the operational risk reporting and measurement system	<p>Based on the overall risk management policy, the Bank has established "Operational Risk Management Guidelines" to actively and effectively measure, control and monitor the operational risks of all products, services, operations and systems, and expose them to risk control reports. Report to the board of directors every quarter.</p> <p>1、Content and scope:</p> <p>(1) The operation status of risk control self-evaluation under the various regulations of the Bank.</p> <p>(2) The Regulations Compliance risk control self-evaluation status of the operation procedures under various regulations and rules.</p> <p>(3) Risk Control self-evaluation on new product (business), activities, process and system.</p> <p>(4) The operation authorization and credit limit management of the credit business operations of each business unit.</p> <p>(5) The handling of business authorization and quota management for the financial department's disbursement, foreign exchange, investment, etc.</p> <p>(6) Report the situation to the financial supervision information single declaration window.</p> <p>(7) Information collection and handling of operation risk loss events.</p> <p>(8) Key risk indicator (KRI) processing situation. °</p> <p>(9) Follow the three pillar principles of the "New Basel Capital Accord". °</p> <p>(10) The situation of each business supervisory unit and risk management education and training.</p> <p>2、In order to effectively measure the operational risk, the operational risk measurement system is divided into operational risk event maintenance operations, credit authorization limit maintenance operations, and so on. And develop the following working guidelines:</p> <p>(1) "Guidelines for data collection of operation risk loss events": collect data on loss events, and classify their types and businesses to understand the distribution of loss events.</p> <p>(2) "Implementation guidelines of the risk management self-evaluation system of each unit": The "risk</p>

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Item	Contents
	control evaluation form" is used to evaluate the status of the Bank's operation procedures, the Bank's articles of association, new products (business), activities, processes, systems, etc. (3) "Guidelines for Implementing Key Risk Indicator System": Set quantitative indicators and corresponding thresholds and warning values for major risks to monitor operational risk insurance and control measures.
4. Policies for operational risk hedging or risk offsets, and strategies and processes for monitoring avoidance and risk-reduction tools for continued effectiveness	When conducting business-related risk-related business, the Bank assesses the probability and severity of the event or transaction, and adopts risk avoidance, risk reduction or transfer, risk control, risk taking and other countermeasures (such as outsourcing operations and insurance employees' honesty). Insurance. etc.). Regularly maintain and develop operational risk management systems based on business and risk tolerance to ensure continuous and effective operation of the system.
5. The method adopted by the statutory capital accrual	Basic indicator method

Operation risk and Capital Charge that should be provided

December 31, 2018

Unit: NT\$1,000

Year	Operating gross profit	Capital Charge should be provided
2016	7,085,220	1,080,835
2017	7,771,530	
2018	6,759,952	
Total	21,616,702	1,080,835

4、Market risk management system and capital business gross profit that should be provided

Market Risk Management System

2018

Item	Contents
1. Market risk management strategies and processes	1、Market risk management strategy Appropriate adjustments are made to the Bank's operating environment and changes in risk, maintaining consistency with the Bank's business strategies and objectives, and covering all key market risks associated with the business. Investing in financial products such as securities should be based on the principle of stability, paying attention to the basic analysis of the commodity and the cycle of the economy, avoiding excessive concentration of risks and complying with the restrictions on investment quotas. 2、Market risk management process Establish a market risk management mechanism to effectively identify, measure, communicate, and monitor market risks associated with all major transaction products and transaction activities.

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Item	Contents
<p>2. Market risk management organization and structure</p>	<p>1、 The Board of Directors is the highest decision-making level of the Bank's market risk management and has ultimate responsibility for the Bank's market risk.</p> <p>2、 In response to changes in domestic and foreign financial situation, the Investment Management Committee will adjust investment strategies and control investment risks in a timely manner to maintain the safety and profitability of investment positions across the Bank.</p> <p>3、 The Risk Management Committee is responsible for implementing the market risk management decisions approved by the Board of Directors, reviewing market risk regulations, and continuously monitoring the performance of risk management execution.</p> <p>4、 The Risk Management Department is responsible for planning, establishing and integrating the Bank's market risk management operations, handling clearing and settlement of transactions between the Bank's fund scheduling and securities trading, and regularly assessing profit and loss at fair market prices and controlling various investments. The location, transaction quota, and the business transaction unit are notified of over-limit, stop loss, early warning, and the market risk information is reported to the risk management committee on a regular basis.</p> <p>5、 The competent business units of the head office are responsible for setting and managing the market risk regulations and operating procedures of the businesses under their jurisdiction, and monitoring their implementation, assisting the risk management department to complete the control of the market risk of the whole bank.</p> <p>6、 Each business transaction unit is responsible for identifying, assessing and measuring risks and adopting appropriate risk countermeasures. Follow the relevant provisions of the Bank's market risk management, conduct daily operations and market risk management, and its risk management personnel are independent of the front desk of the transaction, or are staffed by different departments, and actively monitor various mechanisms such as limits and stop loss, and It is required to report the relevant units in due course.</p>
<p>3. The scope and characteristics of the market risk reporting and measurement system</p>	<p>The market risk includes risks due to interest rates, equity securities, foreign exchange, commodities, etc. The Bank sets the "Market Risk Management Guidelines" based on the overall risk management policy, and will hold the parts according to the "Management guidelines for Transaction Book and Banking Book Classification". The classification of "transaction book" and "banking book" is to effectively manage financial product parts, various investment transactions are carried out in accordance with relevant laws and regulations and the Bank's various specifications to implement risk management of various businesses, to control risks within an affordable range, and to expose Report the risk management report to the board of directors on a quarterly basis. The content and scope are:</p> <p>1、 Market risk investment quota and early warning management :</p> <p>(1) Investment in various types of securities: (a) various securities quotas (regulated by the competent authority) (b) investment restrictions of the same legal person, group enterprise, industry (specified by the Bank) (c) "debt products without active market (Investment restrictions on foreign bonds (specified by the Bank) (d) Non-statutory investment grade plus payable attention to the limit of bond voucher (specified by the Bank), non-statutory investment grade bond voucher investment application requirements and single target investment balance (Required by the Bank) (e) Should pay attention to the investment balance of the single subject of the bond voucher (specified by the Bank), the non-statutory investment grade plus the limit of the note voucher (specified by the Bank) (f) Credit rating is "BBB-/Baa3, twBBB- and equivalent" debts plus pay attention to bonds and non-statutory investment grade bond investment limits (specified by the Bank) (g) in addition to the Bank's "National Risk Management Guidelines In addition to the regulations, the sovereign credit rating is rated as a single national investment ceiling of Baa1~Baa3/BBB+~BBB-level (specified by the Bank). (h) The total balance of various securities (in accordance with the Bank's regulations) for the investment in mainland China (the Bank's regulations). The balance of investment bonds issued by non-financial institutions (including leasing companies and asset management companies) (specified by the Bank). °</p>

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

Item	Contents
	<p>(2) investment in derivative financial products: (a) Head office principal position limit and loss limit (b) Name of each class contract principal control (c) Credit risk limit of counterparty, market price assessment of each counterparty, early warning (d) counterparty limit (same group of companies, industry) (e) Total unhedged contract and individual unhedged contract market price assessment If it is a loss situation, the amount of the loss is limited .</p> <p>(3) Foreign exchange transactions: (a) The unfinished headquarters quota between the Taiwan dollar and the foreign currency of the whole bank (b) The unfinished headquarters position between the foreign currency and the foreign currency of the whole bank (c) position of each currency against the US dollar</p> <p>(4) Interbank business transaction counterparties credit limit (NT, foreign currency).</p> <p>2、Market risk loss-stop mechanism :</p> <p>(1) Investment in various types of securities: (a) Stop loss points of various types of securities and execution (b) Various types of securities or sell assessments and major risks exposure.</p> <p>(2) The stop loss of individual unhedged contracts for the purpose of investing in derivative financial products.</p> <p>(3) Restrictions and execution of exchange losses on traders and commercial parts of the whole bank.</p> <p>3、Market risk stress test (the minimum amount of capital required for the comprehensive situational profit and loss/market risk).</p>
4. Market risk hedging or risk-reduction policies, and strategies and processes for monitoring avoidance and risk-reduction tools for continued effectiveness	Follow the relevant investment quotas and regulations of the competent authorities, and set up limit management and stop loss mechanisms in accordance with relevant operating standards and methods of the Bank's various investments to monitor market risks. When dealing with market risk-related businesses, adopt risk evasion, risk reduction or transfer, risk control, risk taking and other countermeasures; and grasp the overall risk location and risk measurement results according to business and risk commitment to ensure continuous effectiveness.
5. The method adopted by the statutory capital accrual	Standardized approach

Market Risk and the Capital Charge that should be provided

December 31, 2018

Unit: NT\$ 1,000

Risk Type	Capital Charge that should be provided
Interest Risk	1,143,621
Equity Security Risk	1,132,702
Foreign Exchange Risk	114,272
Product Risk	0
Total	2,390,595

5、Liquidity risk includes the maturity analysis of assets and liabilities, and explains how to manage asset liquidity and liquidity gap

(1) Risk management procedures :

For each asset and liability, periodically analyze the maturity gap and the change in the maturity structure as a basis for fund transfer, and conduct liquidity management to reduce liquidity risk. Regularly analyze the correlation between various assets and liabilities and market interest rates to assess the market interest rate risk, and adjust the deposit interest rate pricing and

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

asset allocation to conduct interest rate risk management. Regularly report the profile of assets and liabilities and the changes in various risk management indicators on the Asset and Liability Management Committee to implement the risk management procedures.

(2) Principles of measurement and control :

To cope with liquidity needs, monitor liquidity risk and avoid excessive concentration of funds, regularly prepare the “Taiwan Dollar Maturity Date Structure Analysis Form” and “US Dollar Due Date Structure Analysis Form” to analyze the funding gaps for each period. As an early warning indicator of liquidity, and taking into account the impact of domestic and international financial situation and seasonal factors, timely adjust business strategy, interest rate gap and asset-liability structure, and report to the Asset and Liability Management Committee.

In terms of the use of funds, in addition to the provision of sufficient statutory reserves as required, the remaining funds are mainly invested in government bonds, central bank transferable deposit certificates, treasury bonds, financial bonds, public bond back buy transactions, corporate bonds, commercial promissory notes, banks. Fixed-income financial products such as acceptance bills and beneficiary certificates, in addition to paying attention to the safety of the investment target itself, consider the liquidity of the secondary market to reduce operational risks.

NT Dollar Maturity Date Structure Analysis Table
December 31, 2018

Unit: NT\$ 1,000

	Total	Amount in the period to maturity					
		0 to 10 days	11 to 30 days	31 to 90 days	91 to 180 days	181 days to a year	Exceed 1 year
Mainly due Capital inflow	229,760,884	47,612,826	16,958,753	9,767,412	19,047,650	47,042,010	89,332,233
Mainly due Capital outflow	244,571,868	14,110,759	12,901,350	32,414,978	27,714,173	42,032,167	115,398,441
Period Gap	-14,810,984	33,502,067	4,057,403	-22,647,566	-8,666,523	5,009,843	-26,066,208

Note: this table refers to the NT dollars amounts in the Bank.

US Dollar Maturity Date Structure Analysis Table

December 31, 2018

Unit: NTS 1,000

	Total	Amount in the period to maturity				
		0 to 10 days	11 to 30 days	31 to 90 days	91 to 180 days	181 days to a year
Mainly due Capital inflow	1,576,457	171,453	16,110	66,630	62,240	1,260,024
Mainly due Capital outflow	1,620,334	1,199,324	230,431	43,288	78,584	68,707
Period Gap	(43,877)	(1,027,871)	(214,321)	23,342	(16,344)	1,191,317

Note: this table refers to the US dollars amounts in the Bank.

- (c) The impact of important domestic and foreign policy and legal changes on the bank's financial business and the corresponding measures

The Bank is committed to preventing money laundering and countering terrorist threats. In line with the requirements and regulations of the competent authorities, it has established a "Money Laundering Prevention and Control Division" under the Ministry of Commerce in March 2017 as a special unit for preventing money laundering and terrorist attacks. To supervise the planning and implementation of the identification, assessment and monitoring policies and procedures for money laundering and risk-taking, and to confirm compliance with the laws against money laundering and anti-terrorism, including the relevant model or self-regulation specified by the financial industry association and approved by the FSC. In the same year, the "Name and Name Checking Policies and Procedures for Customers and Transaction Objects" and "Account and Transaction Monitoring Policies and Procedures" were set up to facilitate the discovery of suspicious transactions using the information system.

- (d) The impact of technological changes and industrial changes on the bank's financial business and the corresponding measures

With the advancement of the digital financial era, the Bank first established a mobile phone authentication mechanism in 2015 years to facilitate the development of subsequent digital financial services, and to carry out the revision of the personal online banking, bringing customers a new look. In 2016, the same design elements and styles were extended, and mobile banking and corporate online banking were launched, so that both corporate and individual households can enjoy convenient financial services regardless of geographical and time constraints. In 2017, we continued to build a new generation of personal online banking and mobile banking, and added life-saving functions and personalized reminders such as fingerprint login function and revenue and expenditure management in the mobile banking to provide customers with more friendly interface and transaction functions. Continuously optimize personal online banking and mobile banking, and increase fund services to provide customers with more convenient financial management methods.

- (e) The impact of bank image changes on banks and the corresponding measures: none
- (f) Expected benefits, possible risks and corresponding measures for M&A: None
- (g) Expected benefits, possible risks and response measures for the expansion of the business base: The Bank did not expand its business base in 2018
- (h) Risks and countermeasures faced by business concentration: The Bank's business development and investment control are handled in accordance with the Banking Act and various laws and regulations.
- (i) Impact of changes in management rights on banks, risks and response measures: none
- (j) Directors, supervisors or major shareholders holding more than one percent of the shares, the impact of a large number of shares transferred or replaced on the bank, risks and response measures: none
- (k) Litigation or non-litigation incident: the business department Mr. Lin wealth management specialist misappropriated more than 60 million NT dollars of customer deposits, and the criminal section received

VII. Analysis on Financial Status and Financial Performance and Risk Management Items

the Judgment No. 7 of the 2017 kin in Tainan District on 2018.12.04. The defendant has filed an appeal; The present is currently being heard by the Tainan District Court's 2019 Kin-sue No. 1, 2 and 3.

- (l) Other important risk and countermeasures: In the Bank's operation such as the 2018 Annual Information Security Evaluation test, weakness scan, and information security monitoring, the information security risk analysis result does not show any significant operation risk, and the risks are all within controllable range and the responsive controlling measures have been implemented.

G. Crisis management response mechanism

In order to improve the Bank's crisis norms and contingency mechanisms, the Bank has established "Crisis Management Principle", "Safety Maintenance Practices Guidelines" and "Guidelines for Emergency Response Operations" for compliance. When a major emergency occurs, the relevant unit supervisor can take appropriate measures immediately. In addition to the immediate remedial measures taken by all units of the Bank, the units of the Bank will promptly call the system convener and the organizer by telephone. The relevant response measures will be taken immediately in the event of a dangerous incident, and the response plan can be quickly adopted. Eliminate the impact of crisis events and maintain the normal operation of operational activities.

H. Other important matters: None.

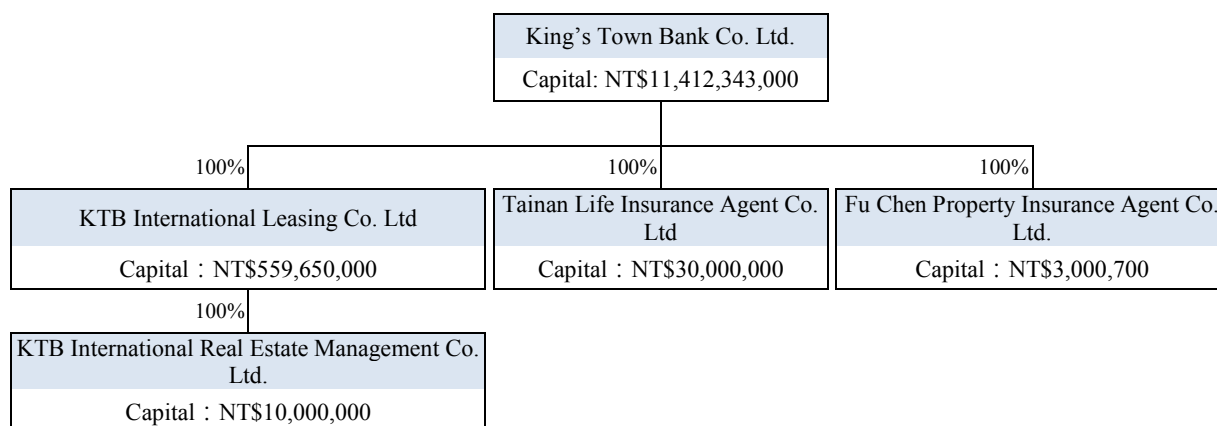
VIII. Special Items

A. Relevant Information of the Related Enterprises

(a) Consolidated Business Report for the related Enterprises

1、Related Enterprises Organization Chart

Base Date : 2019.03.31



2、Basic Data of the Related Enterprises

Unit: NT\$ 1,000

Name of Enterprise	Date of Establishment	Address	Paid-in Capital	Main business Items
Tainan Life Insurance Agent Co., Ltd.	2002.05.17	8F, No. 506, Section 1, Ximen Road, Tainan City	30,000	Life Insurance Agent
Fu Chen Property Insurance Agent Co., Ltd.	2002.05.17	8F, No. 506, Section 1, Ximen Road, Tainan City	3,000.70	Property Insurance Agent
KTB International Leasing Co., Ltd.	2015.01.22	8F Floor, No. 167 Dunhua North Road, Songshan District, Taipei City	559,650	Financial Leasing
KTB International Real Estate Management Co., Ltd.	2016.12.07	8F Floor, No. 167 Dunhua North Road, Songshan District, Taipei City	10,000	Construction Manager

3、Director, Supervisor and President Data of the Related Enterprises

Base Date : 2019.03.31

Name of Enterprises	Title	Name or Representative	Shareholding	
			Shares	Ratio (%)
Tainan Life Insurance Agent Co., Ltd.	Chairman Director Director Supervisor Supervisor	King's Town Bank Representative : Chiung-Ting Tsai King's Town Bank Representative : Chen-Chih Tai King's Town Bank Representative : Hsueh-Ling Chen King's Town Bank Representative : Chih-Cheng Yu King's Town Bank Representative : Chieh-Ko Yang	3,000,000	100.00%
Fu Chen Property Insurance Agent Co., Ltd.	Chairman Director Director Supervisor Supervisor	King's Town Bank Representative : Chiung-Ting Tsai King's Town Bank Representative : Chen-Chih Tai King's Town Bank Representative : Hsueh-Ling Chen King's Town Bank Representative : Chih-Cheng Yu King's Town Bank Representative : Chieh-Ko Yang	300,070	100.00%
KTB International Leasing Co., Ltd.	Chairman Director Director Supervisor	King's Town Bank Representative : Chien-Chih, Liu King's Town Bank Representative : Chen-Chih Tai King's Town Bank Representative : Chiung-Ting Tsai King's Town Bank Representative : Chieh-Ko Yang	55,965,000	100.00%
KTB International Real Estate Management Co., Ltd.	Chairman Director Director Supervisor	KTB International Leasing Co., Ltd. : Chiung-Ting Tsai KTB International Leasing Co., Ltd. : Chen-Chih Tai KTB International Leasing Co., Ltd. : Ming-hui, Chen KTB International Leasing Co., Ltd. : Chieh-Ko Yang	1,000,000	100.00%

VIII. Special Items

4. Operation Status of Related Enterprise

Base Date : 107.12.31

Unit : Thousand NT dollars

Name of Enterprise	Capital	Total Assets	Total Liabilities	Net Worth	Operation Income	Operation Profit	Current Profit/Loss (after tax)	EPS (After tax)(dollar)
Tainan Life Insurance Agent Co., Ltd.	30,000	386,653	22,955	363,698	287,955	233,469	163,419	54.47
Fu Chen Property Insurance Agent Co., Ltd.	3,001	7,060	863	6,197	7,351	1,864	1,493	4.98
KTB International Leasing Co., Ltd.	559,650	2,943,467	2,324,720	618,747	967,896	116,534	74,721	1.34
KTB International Real Estate Management Co., Ltd.*	10,000	17,055	2,635	14,420	11,433	4,569	3,746	3.75

*Note: The profit/loss of the company has reflected in the financial report of KTB International Leasing Co. Ltd.

(b) Consolidated Financial Statements of the Related Enterprises: Same as the Consolidated Financial Statements for the Parent and the subsidiary companies, for details, please refer to page 79 to 83 in the annual report.

(c) Relationship Statement: Please refer to page 75 of the annual report.

B. Private Equity Securities and financial bonds: None.

C. Subsidiary holding or disposing of the Bank's stock: None.

D. Other necessary supplementary notes

Important Incidents in 2018 are as follows:

Date	Incident
01/22	Whole new version of "King's Town Mobile Banking" APP goes online.
02/26	ZhongLi branch relocation to No.175, Puyi Rd., Zhongli Dist., Taoyuan City.
03/15	Launch LINE@ Personal account bounding service.
04/30	Ranked top five percent listed companies in the fourth Corporate Governance Evaluation.
07/24	Won the second place in the "2017 Bank International Competitiveness Rating" hosted by the Finance Research Center of National Taiwan University and Taiwan Financial Education Association.
10/08	Xinhua branch relation (No. 586, Zhongshang Road, Xinhua District, Tainan City).
10/01	Won the first prize of the 2018 Taipower SMEs Non-manufacturing Energy Conservation Competition.
10/29	New version of personal internet banking is launched.
11/03	Obtain ISO 50001:2011 Energy Management System accreditation.
11/12	Define King's Town Bank Human Right Policy.
11/26	Won two prizes from Joint Credit Information Center in "Golden Security Award" for banks and "Golden Quality Award" for credit data.

E. Significant impact matters as listed in section 2 of paragraph 3 in Article 36 of Securities and Exchange Act : None.

IX. Head Office & Branches

Branch	Address	Telephone
Tainan Area		
Headquarter	No.506, Sec. 1, Ximen Road, West Central Dist., Tainan	886-6-213-9171
Trust Dept.	8F, No.506, Sec. 1, Ximen Road, West Central Dist., Tainan	886-6-213-9922
International Banking Dept.	9F, No.506, Sec. 1, Ximen Road, West Central Dist., Tainan	886-6-215-5238
Offshore Banking Unit	9F, No.506, Sec. 1, Ximen Road, West Central Dist., Tainan	886-6-215-5238
Business Dept.	1F, No.506, Sec. 1, Ximen Rd., West Central Dist., Tainan City	886-6-214-1271
Tainan Branch	No.69, Sec. 2, Zhongyi Rd., West Central Dist., Tainan City	886-6-228-3155
East Tainan Branch	No.98, Sec. 2, Linsen Rd., East Dist., Tainan City	886-6-238-5506
Zhong-Hua Branch	No.106, Renhe Rd., East Dist., Tainan City	886-6-260-3171
Hsin-Hsing Branch	No.357, Xinxing Rd., South Dist., Tainan City	886-6-265-8511
Fu-Cheng Branch	No.15, Sec. 4, Ximen Rd., North Dist., Tainan City	886-6-283-3046
Yunong Branch	No.619-2, Yunong Rd., East Dist., Tainan City	886-6-235-0588
Kai-Yuan Branch	No.280, Kaiyuan Rd., North Dist., Tainan City	886-6-234-7302
An-He Branch	No.241, Sec. 2, Anhe Rd., Annan Dist., Tainan City	886-6-355-9311
An-Nan Branch	No.366, Sec. 1, Haidian Rd., Annan Dist., Tainan City	886-6-259-8153
Yen-Hang Branch	No.54, Zhongzheng N. Rd., Yongkang Dist., Tainan City	886-6-254-1839
Yongkang Branch	No.102, Sec. 2, Yongda Rd., Yongkang Dist., Tainan City	886-6-272-9621
Guiren Branch	No.29, Sec. 2, Zhongshan Rd., Guiren Dist., Tainan City	886-6-239-6185
Xinhua Branch	No.586, Zhongshan Rd., Xinhua Dist., Tainan City	886-6-598-7103
Yujing Branch	No.130, Zhongshan Rd., Yujing Dist., Tainan City	886-6-574-7673
Rende Branch	No.365, Zhongshan Rd., Rende Dist., Tainan City	886-6-270-8056
Guanmiao Branch	No.17, Wenheng Rd., Guanmiao Dist., Tainan City	886-6-596-1550
Madou Branch	No.83, Zhongshan Rd., Madou Dist., Tainan City	886-6-572-1117
Jiali Branch	No.203, Wenhua Rd., Jiali Dist., Tainan City	886-6-722-3152
Xigang Branch	No.344, Zhongshan Rd., Xigang Dist., Tainan City	886-6-795-1949
Xuejia Branch	No.111, Jisheng Rd., Xuejia Dist., Tainan City	886-6-783-1417
Xinying Branch	No.148, Zhongshan Rd., Xinying Dist., Tainan City	886-6-632-4161
Baihe Branch	No.7, Guoguang Rd., Baihe Dist., Tainan City	886-6-685-2085
Liujia Branch	No.491, Zhongzheng Rd., Liujia Dist., Tainan City	886-6-698-7813
Yanshui Branch	No.15, Zhongzheng Rd., Yanshui Dist., Tainan City	886-6-652-1677
Shanhua Branch	No.452, Zhongshan Rd., Shanhua Dist., Tainan City	886-6-581-5658
Xinshi Branch	No.240, Zhongzheng Rd., Xinshi Dist., Tainan City	886-6-599-5631
Greater Taipei Area		
Songshan Branch	8F, No.167, Dunhua North Rd., Songshan Dist., Taipei City	886-2-8712-6369
Taipei Branch	2F, No.75, Sec. 4, Ren ai Rd, Da an Dist., Taipei City	886-2-2771-0922
Neihu Branch	No.181, Zhouzi St., Neihu Dist., Taipei City	886-2-2799-4599
Zhong-Xiao Branch	No.29, Ln. 743, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City	886-2-8785-2525
Banciao Branch	No.3, Sec. 1, Zhongshan Rd., North Dist., New Taipei City	886-2-8951-5758
Shuang-He Branch	No.878, Zhongzheng Rd., Zhonghe Dist., New Taipei City	886-2-8221-7871

IX. Head Office & Branches

Branch	Address	Telephone
Xinzhuang Branch	1F, No.146, Touqian Rd., Xinzhuang Dist., New Taipei City	886-2-2994-1213
Luzhou Branch	No.232, Jixian Rd., Luzhou Dist., New Taipei City	886-2-2288-4988
Xindian Branch	9F, No.190, Zhongzheng Rd., Xindian Dist., New Taipei City	886-2-8911-9298
Taoyuan and Hsinchu Area		
Taoyuan Branch	No.106, Zhonghua Rd., Taoyuan Dist., Taoyuan City	886-3-347-2469
ZhongLi Branch	1F., No.175, Puyi Rd., Zhongli Dist., Taoyuan City	886-3-462-8989
Nankan Branch	No.117, Sec. 1, Xinnan Rd., Luzhu Dist., Taoyuan City	886-3-352-1616
Hsinchu Branch	No.180, Zhongzheng Rd., North Dist., Hsinchu City	886-3-528-0526
East Hsinchu Branch	No.227, Guanxin Rd., East Dist., Hsinchu City	886-3-563-9998
Taichung and Changhua Area		
Taichung Branch	No.200, Chungming Rd., Nort Dist., Taichung City	886-4-2329-3511
Wenxin Branch	No.320, Sec. 1, Wenxin Rd., Nantun Dist., Taichung City	886-4-2328-8007
Dali Branch	No.408, Daming Rd., Dali Dist., Taichung City	886-4-2406-8829
Changhua Branch	No.136, Huashan Rd., Changhua City, Changhua County	886-4-7288-998
Yunlin Area		
Dounan Branch	No.131, Zhongzheng Rd., Dounan Township, Yunlin County	886-5-597-3181
Huwei Branch	No.133, Gong an Rd., Huwei Township, Yunlin County	886-5-632-3301
Lunbei Branch	No.375, Zhonshan Rd., Lunbei Township., Yunlin County	886-5-696-6821
Douliu Branch	No.128, Minsheng Rd., Douliu City., Yunlin County	886-5-532-1561
Xiluo Branch	No.166, Fuxing Rd., Xiluo Township., Yunlin County	886-5-586-9541
Beigang Branch	No.61, Minzhu Rd., Beigang Township, Yunlin County	886-5-783-6181
Chiayi Area		
Chiayi Branch	No.175, Linsen W. Rd., West Dist., Chiayi City	886-5-224-2135
Hsin-Yeh Branch	No.784., Xinmin Rd., West Dist., Chiayi City	886-5-285-2171
Meishan Branch	No.126, Zhongshan Rd., Meishan Township, Chiayi County	886-5-262-2131
Zhuqi Branch	No.221-1, Zhongshan Rd., Zhuqi Township, Chiayi County	886-5-261-1941
Zhongpu Branch	No.867, Sec. 5, Zhongshan Rd., Zhongpu Township, Chiayi County	886-5-239-0011
Shuishang Branch	No.317, Zhongxing Rd., Shuishang Township, Chiayi County	886-5-268-9681
Taibao Branch	No.166-17, Sec. 2, Beigang Rd., Taibao City, Chiayi County	886-5-238-1518
Puzi Branch	No.43, Shantong Rd., Puzi City, Chiayi County	886-5-379-5181
Minxiong Branch	No.6, Minsheng Rd., Minxiong Township, Chiayi County	886-5-226-2372
Dalin Branch	No.291, Xianghe Rd., Dalin Township, Chiayi County	886-5-265-1541
Kaohsiung Area		
Zhong-zheng Branch	No.176, Qixian 1st Rd., Xinxing Dist., Kaohsiung City	886-7-235-2929
Kaohsiung Branch	No.110, Yucheng Rd., Sanmin Dist., Kaohsiung City	886-7-345-7171
North Kaohsiung Branch	No.150, Bo ai 2nd Rd., Zuoying Dist., Kaohsiung City	886-7-550-7708
Gangshan Branch	No.176, Zhongshan N. Rd., Gangshan Dist., Kaohsiung City	886-7-624-1766
Nanzi Branch	No.67, Yiqun Rd., Nanzi Dist., Kaohsiung City	886-7-362-6969

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King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Financial Statements and Independent Auditor's Report
January 1 to December 31, 2018 and 2017

Address: No. 506, Section 1, Ximen Road, Xiancao Village, West Central District, Tainan
Tel. No.: (06)213-9171

Notice to Readers

The English version independent auditors' report and the financial statements are the translation of the Chinese version, not audited by accountants. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

Statement of Declaration

The companies to be included by the Bank in the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of affiliates in accordance with the “Rules Governing the Preparation of Affiliated Company’s Consolidated Business Report, Affiliated Company’s Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and Relationship Report” in 2018 (from January 1 to December 31, 2018) are identical to those to be included in the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the Parent Company and subsidiaries in accordance with the International Financial Reporting Standards No. 10. Also, the information to be disclosed in the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the affiliated companies has been disclosed in said Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the Parent Company and subsidiaries. Therefore, the Bank will not separately prepare the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the affiliated companies.

Hereby declare

Company name: King's Town Bank Co., Ltd.

Responsible person: Chen-Chih Tai

February 25, 2019

Auditor's Report

To: King's Town Bank Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheet of King's Town Bank Co., Ltd. and subsidiary as of December 31, 2018 and 2017, and the related consolidated statement of comprehensive income, consolidated statement of changes in shareholders equity, consolidated statement of cash flows, and notes of the consolidated financial statements (including major accounting policy) for the years then ended.

In our opinion, the financial statements present fairly, in all material aspects the financial position of King's Town Bank Co., Ltd. as of December 31, 2018 and 2017, and the results of its financial performance and 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 Issuers, and applicable IFRS, IAS, SIC, and IFRIC as recognized by the Financial Supervisory Commission .

Basis for opinion

We conducted the audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the consolidated financial statements. We are independent of King's Town Bank Co., Ltd. and its subsidiaries in accordance with the Code of Professional Ethics for certified public accountants in the part relevant to the audit of the consolidated financial statements of King's Town Bank Co., Ltd., and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Remarks - application of new accounting standards

As stated in Note III in the consolidated financial statements, King's Town Bank Co., Ltd., and its subsidiaries have applied International Financial Reporting Standard (IFRS) No. 9 "Financial Instruments" since January 1, 2018 and have chosen not to re-prepare the consolidated financial statements for the comparison periods. The accountants did not revise the audit opinion as a result.

Key audit matters

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the consolidated financial statements of King's Town Bank Co., Ltd. in 2018. These matters were addressed in the content of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Financial instrument evaluation

King's Town Bank Co., Ltd., and its subsidiaries invest in different types of financial assets. As of December 31, 2018, the total financial assets measured at fair value were NT\$85,274,153 thousand, accounting for about 30% of total assets. Of which, for the investments classified in the Class II fair value hierarchy, including the derivative financial instruments of bonds and FX Swap

contracts, there was a book value of NT\$39,887,636 thousand, accounting for 47% of the financial assets measured at fair value. Since the Class II investment evaluation is based on an internal evaluation model, the key input values are the yield rate and exchange rate, which have a significant impact on the estimation of fair value. Therefore, we consider it to be a “Key Audit Matter”.

Our audit procedures include (but are not limited to) evaluating and testing the effectiveness of internal controls related to financial instrument evaluation, including the evaluation models and their assumptions managed and approved by the management. We have used the sampling basis to understand and evaluate the rationality of the key assumptions, perform an independent evaluation calculation, and adopt the assistance of internal evaluation experts to compare the differences against the evaluations made by the management in order to see whether they are within the tolerance range.

Please refer to Notes V, VI, XIII, and XIV of the financial statements for the disclosures of financial assets of King’s Town Bank Co., Ltd., and its subsidiaries.

Appropriated allowance for bad debt from loans

As of December 31, 2018, the book value of the loans of King’s Town Bank Co., Ltd., and its subsidiaries was NT\$152,229,752 thousand, accounting for 54% of the total assets, which was significant for the financial statements and was subject to the assessment of expected credit losses as stipulated in IFRS 9 and “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The assumptions adopted by the management in estimating the expected credit losses include the conditions for determining whether the credit risk is significantly increased, whether credit impairment has occurred, the selection and evaluation of the forward-looking factors, the probability of default (PD), the loss given default (LGD) parameters, etc., and involve a high degree of professional judgment. Therefore, we consider them to be “Key Audit Matters”.

Our audit procedures include (but are not limited to) evaluating and testing internal controls related to the calculation of expected credit losses, examining whether the expected credit loss assessment model has been approved by the management, assessing the source of expected credit losses, and having internal experts review the reasonableness of the expected credit loss model, the appropriateness and rationality of the input parameters of the expected credit loss model in the sampling test, including the probability of default (PD) and the loss given default (LGD). In addition, we also examine whether the management complies with the requirements of the relevant authority’s written order to confirm that the loan classification and allowance for bad debts are in compliance with the statutory requirements.

Please refer to Notes V, VI, and XIV of the financial statements for the disclosure of the allowance for bad debt of King’s Town Bank Co., Ltd., and its subsidiaries.

Responsibilities of Management and Those charged with Governance of the Consolidated Financial Statements.

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Issuers, and applicable IFRS, IAS, SIC, and IFRIC as recognized by the Financial Supervisory Commission, and for such internal control as the management determines is necessary to enable the preparation of the consolidated financial statements to be free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the ability of King's Town Bank Co., Ltd. and its subsidiaries as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate King's Town Bank Co., Ltd. and its subsidiaries or to create operations, or has no realistic alternative but to do so.

Those charged with governance unit of King's Town Bank Co., Ltd., and its subsidiaries (including the Audit Committee or supervisors) are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements.

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

As part of an audit in accordance with the generally accepted auditing standards in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also perform the following works:

1. Identify and assess the risks of material misstatement of the consolidated 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 internal control effective in King's Town Bank Co., Ltd. and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonability of accounting estimates and related disclosures made by the management.
4. Conclude the appropriateness of the use of the going concern basis of accounting by the management, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on King's Town Bank Co., Ltd. and its subsidiaries and its 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 inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause King's Town Bank Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall expression, structure, and content of the consolidated financial

statements (including related notes) and whether the consolidated financial statements include the relevant transactions and events expressed adequately.

6. Obtain sufficient and appropriate audit evidence for the consolidated financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for guiding, supervising, and implementing the audit of the Group; also, are responsible for forming an opinion on the audit of the Group.

We communicate the following events with the governance unit, including the planned scope and audit time, as well as major audit findings (including significant deficiencies of internal control identified during the audit process).

We also provide a statement to the governance unit that the personnel of the CPA Firm who are subject to the regulation of independence are indeed complying with the independence requirements in accordance with the Code of Professional Ethics. Also, they communicate to the governance unit all relationships and matters (including related protective measures) that may be considered as affecting the independence of the accountants.

We use the matters communicated with the governance unit to decide the Key Audit Matters for the audit of the 2018 consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries. 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 communications.

Others

King's Town Bank Co., Ltd., has prepared the business entity's 2018 and 2017 financial reports, and the audit report issued by the accountants with an unqualified opinion and notes included is filed for future reference.

Ernst & Young, Taiwan

The Securities and Futures Bureau of the Financial Supervisory Commission approved the financial report of the public offering company

Auditing and Certification No.: Jin-Guan-Cheng-Shen-Zi No. 1010045851

Jin-Guan-Cheng-Shen-Zi No. 1030025503

Tzu Ren Hu

Certified CPA

Cheng Tao Chang

February 25, 2019

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Balance Sheet
December 31, 2018 and 2017

Unit: NTD thousand

Assets			December 31, 2018		December 31, 2017	
Code	Account titles	Note	Amount	%	Amount	%
10000	Assets					
11000	Cash and cash equivalents	IV/ VI.1	\$4,342,341	2	\$4,443,137	2
11500	Due from Central Bank and lend to Banks	IV/ VI.2	13,844,758	5	14,535,143	5
12000	Financial assets at fair value through profit or loss	IV/ VI.3/ VIII	31,786,797	11	21,606,855	8
12100	Financial assets at fair value through other comprehensive profit or loss	IV/ VI.4, 29/ VIII	53,487,356	19	-	-
12200	Investment in debt instruments at amortised cost	IV/ VI.5, 29	17,597,996	6	-	-
12500	Bonds and securities sold under repurchase agreements	IV/ VI.6	624,167	-	2,565,772	1
13000	Receivable- net	IV/ VI.7	3,642,416	2	2,669,418	1
13500	Notes discounted and loans – net	IV/ V/ VI.8	152,229,752	54	142,947,865	53
14000	Available-for-Sale Financial Assets – net	IV/ VI.9/ VIII	-	-	59,078,492	22
14500	Held-to-maturity financial assets	IV/ VI.10	-	-	17,600,000	6
15500	Other financial assets – net	IV/ VI.11	4,705	-	328,669	-
15513	Liability instrument investments for which no active market exists	IV/ VI.12/ VIII	-	-	1,980,968	1
18500	Property, plant, and equipment – net	IV/ VI.13	2,388,923	1	2,393,890	1
19300	Deferred income tax assets	IV/ VI.32	266,927	-	275,018	-
19500	Other assets – net	VI.14	878,581	-	751,034	-
	Total assets		<u>\$281,094,719</u>	<u>100</u>	<u>\$271,176,261</u>	<u>100</u>

(Refer to Notes to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Balance Sheet (Continued)
December 31, 2018 and 2017

Unit: NTD thousand

Liabilities and Equity			December 31, 2018		December 31, 2017	
Code	Account titles	Note	Amount	%	Amount	%
20000	Liabilities					
21000	Due to Central Bank and other banks	IV/ VI.15	\$19,937,251	7	\$22,269,428	8
21500	Funds borrowed from Central Bank and other banks	VI.16	3,438,640	1	5,315,680	2
22000	Financial liabilities at fair value through profit and loss	IV/ VI.17	25,784	-	127,902	-
22500	Bills and bonds sold under repurchase agreements	IV/ VI.18	29,316,496	10	21,359,805	8
23000	Payables	VI.19	2,311,881	1	2,431,811	1
23200	Current Tax Liability	IV/ VI.32	404,846	-	564,198	-
23500	Deposits and remittances	VI.20	188,432,924	67	180,388,401	67
25500	Other financial liabilities	VI.21	1,230,000	1	900,000	-
25600	Liability reserve	IV/ VI.22, 23, 29	420,427	-	473,759	-
29300	Deferred tax liabilities	IV/ VI.32	59,890	-	50,135	-
29500	Other liabilities	VI.24	332,519	-	334,262	-
	Total liabilities		<u>245,910,658</u>	<u>87</u>	<u>234,215,381</u>	<u>86</u>
31000	Equity of the parent company	VI.25				
31100	Capital stock		11,512,343	4	11,512,343	4
31500	Capital surplus		99,585	-	62,323	-
32000	Retained earnings					
32001	Legal reserve		9,555,297	3	7,872,137	3
32003	Special reserve		100,930	-	72,877	-
32011	Undistributed earnings		14,699,482	6	15,533,279	6
32500	Other equity	IV	(468,711)	-	2,037,561	1
32600	Treasury stock	IV	(314,865)	-	(129,640)	-
	Total equity		<u>35,184,061</u>	<u>13</u>	<u>36,960,880</u>	<u>14</u>
	Total Liabilities and Equity		<u>\$281,094,719</u>	<u>100</u>	<u>\$271,176,261</u>	<u>100</u>

(Refer to Notes to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Income Statement
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

Code	Account titles	Note	2018		2017	
			Amount	%	Amount	%
41000	Interest revenue	IV	\$6,872,966	98	\$6,232,248	69
51000	Less: interest expense	IV	(1,855,473)	(26)	(1,431,778)	(16)
	Net interest income	VI.26	5,017,493	72	4,800,470	53
	Net income other than interest income					
49100	Service Fee, Net	IV/ VI.27	1,843,003	26	1,772,080	20
49200	Gain (loss) on financial assets and liabilities at fair value through profit and loss	IV/ VI.28	(206,416)	(3)	1,012,831	11
49300	Realized gain on available-for-sale financial assets	IV	-	-	1,131,183	13
49310	Realized gain on financial assets at fair value through other comprehensive profit or loss	IV	53,747	1	-	-
49600	Net exchange gain	IV	161,600	2	94,866	1
49700	Assets impairment loss (reversal gain)	IV/ VI.29	59,109	1	130,504	2
49800	Net income other than interest income					
49805	Net profit or loss of financial assets measured at cost		-	-	24,787	-
49813	Net income on liability instrument investments for which no active market exists	IV	-	-	12,590	-
49863	Net gain (loss) from asset trade	IV	(109)	-	5,294	-
49899	Other net income		72,387	1	20,840	-
	Net revenue		7,000,814	100	9,005,445	100
58200	Bad debts, commitments, and guarantees reserve (computed)	IV/ VI.7, 8, 29	(1,643,112)	(23)	(670,584)	(7)
58400	Operating expenses					
58500	Employee benefits expenses	VI.23, 30	(932,445)	(13)	(981,557)	(11)
59000	Depreciation and amortization expenses	IV/ VI.13, 30	(49,970)	(1)	(51,122)	(1)
59500	Business and administrative expenses	IV	(801,976)	(12)	(841,599)	(9)
61000	Income before tax from continuing operations		3,573,311	51	6,460,583	72
61003	Income tax expenses	IV/ VI.32	(695,510)	(10)	(850,049)	(10)
64000	Current year net income after tax		2,877,801	41	5,610,534	62
65000	Other comprehensive profit or loss					
65200	Items not reclassified as income	IV/ VI.31, 32				
65201	Defined benefit plan re-measurement amount		(8,950)	-	(7,372)	-
65204	Evaluation of the capital gain/loss from equity instrument at fair value through comprehensive income statement as other comprehensive income		(71,940)	(1)	-	-
65220	Incomes tax related to titles not subject to reclassification		8,632	-	1,254	-
65300	Items that may be re-classified subsequently under profit or loss	IV/ VI.31, 32				
65301	Exchange differences from the translation of financial statements of foreign operations		64,596	1	(32,956)	-
65302	Unrealized valuation gains and losses of available-for-sale financial assets		-	-	302,673	3
65308	Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income		(3,283,825)	(47)	-	-
65320	Income tax related to items possibly be reclassified		(12,048)	-	5,603	-
	Current period other comprehensive income (net, after tax)		(3,303,535)	(47)	269,202	3
66000	Current period total comprehensive income (after tax)		\$(425,734)	(6)	\$5,879,736	65
67100	Net profit attributable to					
67101	Parent company		\$2,877,801		\$5,610,534	
67111	Non-controlling interest		\$ -		\$ -	
67300	Current period comprehensive profit or loss (after tax) attributable to					
67301	Parent company		\$(425,734)		\$5,879,736	
67311	Non-controlling interest		\$ -		\$ -	
	Earnings per share (NTD)	VI.33				
67500	Basic earnings per share		\$2.51		\$4.89	
67700	Diluted earnings per share		\$2.51		\$4.89	

(Refer to Notes to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

Item	Capital stock	Capital surplus	Retained Earnings			Other Equity			Treasury stock	Total equity
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences from the translation of financial statements of foreign operations	Unrealized gain on financial assets at fair value through other comprehensive profit or loss	Unrealized gain or loss on available-for-sale financial assets		
Balance as of January 1, 2017	\$11,512,343	\$62,323	\$6,437,699	\$48,970	\$13,106,560	\$3,236	\$-	\$1,759,005	\$(129,640)	\$32,800,496
The 2016 appropriation and distribution of earnings										
Legal reserve appropriated			1,434,438		(1,434,438)					-
Appropriation of special reserve				23,907	(23,907)					-
Common stock cash dividends					(1,719,352)					(1,719,352)
2017 net income	-	-	-	-	5,610,534	-	-	-	-	5,610,534
Other comprehensive net income in 2017	-	-	-	-	(6,118)	(27,353)	-	302,673	-	269,202
Total comprehensive income in 2017	-	-	-	-	5,604,416	(27,353)	-	302,673	-	5,879,736
Balance as of December 31, 2017	\$11,512,343	\$62,323	\$7,872,137	\$72,877	\$15,533,279	\$(24,117)	\$-	\$2,061,678	\$(129,640)	\$36,960,880
Balance as of January 1, 2018	\$11,512,343	\$62,323	\$7,872,137	\$72,877	\$15,533,279	\$(24,117)	\$-	\$2,061,678	\$(129,640)	\$36,960,880
Effect of retroactive applicability and recompilation					(271,485)		2,850,763	(2,061,678)	-	517,600
Re-composed balance at the beginning of January 1, 2018	11,512,343	62,323	7,872,137	72,877	15,261,794	(24,117)	2,850,763	-	(129,640)	37,478,480
The 2017 appropriation and distribution of earnings										
Legal reserve appropriated			1,683,160		(1,683,160)					-
Appropriation of special reserve				28,053	(28,053)					-
Common stock cash dividends					(1,720,722)					(1,720,722)
Other capital										
Share-based payment transaction	-	37,262	-	-	-	-	-	-	129,640	166,902
2018 net income	-	-	-	-	2,877,801	-	-	-	-	2,877,801
Other comprehensive net income in 2018	-	-	-	-	(318)	52,548	(3,355,765)	-	-	(3,303,535)
Total comprehensive income in 2018	-	-	-	-	2,877,483	52,548	(3,355,765)	-	-	(425,734)
Equity instrument at fair value through other comprehensive income statement					(7,860)		7,860			-
Treasury stock buy-back cost									(314,865)	(314,865)
Balance as of December 31, 2018	\$11,512,343	\$99,585	\$9,555,297	\$100,930	\$14,699,482	\$28,431	\$(497,142)	\$-	\$(314,865)	\$35,184,061

(Refer to Notes to the consolidated financial statements)

Chairman: Chen-Chih Tai Manager: Jih-Cheng Chang Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Cash Flow
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

Item	2018	2017	Item	2018	2017
	Amount	Amount		Amount	Amount
Cash flow from operating activities:			Cash flow from investing activities:		
Current year net profit before taxation	\$3,573,311	\$6,460,583	Decrease in bond investments without an active market	-	761,069
Adjustments:			Purchase of property, plant, and equipment	(44,755)	(42,622)
Revenue, expense and loss that do not affect the cash flows			Proceeds from disposal of property or equipment	80	49,421
Anticipated credit impairment/ Bad debt expense	1,643,112	670,584	Net cash inflow from investing activities	(44,675)	767,868
Loss (gain) on reversal of assets impairment	(58,692)	(145,717)			
Non-financial assets impairment loss (reversal gain)	(417)	15,213	Cash flows from financing activities:		
Depreciation and amortization expenses	49,970	51,122	Funds borrowed from Central Bank and other banks (decrease)	(1,877,040)	(2,496,280)
Net interest income	(5,017,493)	(4,800,470)	Increase in bills and bonds sold under repurchase agreements	7,956,691	5,806,458
Cost of share-based payment service	37,262	-	Cash dividend released	(1,720,722)	(1,719,352)
Disposal and obsolescence loss (gain) of property and equipment	89	(5,294)	Treasury stock buy-back cost	(314,865)	-
Loss on disposal of other assets	20	-	Treasury stock purchased by employees	129,640	-
Changes in assets/liabilities relating to operating activities			Net cash inflow from financing activities	4,173,704	1,590,826
Due from Central Bank and lend to Banks (increase)	(292,920)	(250,112)			
Financial assets at fair value through profit and loss (increase)	(8,900,271)	(16,021,499)	Impact of changes in exchange rate on cash and cash equivalents	64,596	(32,956)
Accounts receivable (increase)	(924,494)	(1,166,579)			
Discounts and loans (increase)	(10,957,924)	(19,308,792)	Current cash and cash equivalents (decrease)	(3,025,706)	(21,100,914)
Available-for-Sale Financial Assets (decrease)	-	5,343,303	Balance of cash and cash equivalents, beginning of period	16,522,376	37,623,290
Financial assets at fair value through other comprehensive profit or loss (decrease)	3,875,595	-	Balance of cash and cash equivalent, end of period	\$13,496,670	\$16,522,376
Held-to-maturity financial assets (increase)	-	(17,600,000)			
Other financial assets (increase)	(4,649)	(23,211)	Composition of cash and cash equivalents		
Other assets decrease (increase)	(127,567)	(92,553)	Cash and cash equivalents on the consolidated balance sheet	\$4,342,341	\$4,443,137
Due to Central Bank and other banks (decrease) increase	(2,332,177)	11,887,980	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	8,530,162	9,513,467
Financial liabilities at fair value through profit and loss (increase)	(102,118)	92,956	Bonds and securities sold under repurchase agreements satisfied the definition of cash and cash equivalents under IAS No.7	624,167	2,565,772
Payables (decrease) increase	(146,807)	154,650	Balance of cash and cash equivalent, end of period	\$13,496,670	\$16,522,376
Increase in deposits and remittances	8,044,523	6,635,571			
Increase in other financial liabilities	330,000	830,000			
Decrease in liabilities reserve	(43,538)	(44,999)			
Increase (decrease) in other liabilities	(1,743)	40,790			
Interest received	6,806,625	6,166,186			
Interest payment	(1,828,596)	(1,415,550)			
Income tax payment	(840,432)	(900,814)			
Net cash outflow from operating activities	(7,219,331)	(23,426,652)			

(Refer to Notes to the consolidated financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Notes to financial statements
January 1 to December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Organization and operations

1. King's Town Bank Co., Ltd., (hereinafter referred to as the "Group") was restructured from Tainan District Joint Savings Co., Ltd., on January 1, 1978. The Group had applied for restructuring into a commercial bank according to the resolution reached in the extraordinary shareholders meeting on November 29, 2005 and was renamed as "King's Town Bank Co., Ltd." The Group started trading on the Taiwan Stock Exchange since July 1983. The place of registration and the general management office are located at No. 506, Section 1, Ximen Road, Xiancao Village West Central, Central and Western District, Tainan City, and branches are setup nationwide.
2. The Group's main business services are: (1) accepting check deposits, (2) accepting other deposits, (3) issuing financial bonds, (4) handling loans, (5) handling bill discounts, (6) handling various investment businesses, (7) handling domestic and foreign exchange, (8) handling draft acceptance, (9) issuing domestic and foreign letters of credit, (10) handling domestic and foreign guarantees, (11) handling collections and advances, (12) handling the depository and agency services related to the various businesses listed above, and (13) other business chartered by the government.
3. The Company is also the ultimate controller of the Group to which it belongs.
4. The Group had 982 employees and 963 employees as of December 31, 2018 and 2017, respectively.

II. Financial reporting date and procedures

The consolidated financial statements of the Group for the period of January 1 – December 31, 2018 and 2017 were approved for publication by the Board of Directors on February 25, 2019.

III. Application of new and revised standards and interpretation

1. Changes in accounting policies resulting from the first-time application of International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations or Notices that have been approved by the Financial Supervisory Commission (hereinafter referred to as the "FSC") for application after January 1, 2018. Except for the nature and impact of the new standards and amendments described below, the first-time application has no significant impact on the Group:

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

For International Financial Reporting Standard upgraded from the 2017 version to 2018 version, the impact of the adjustments made on the first-time application date on each item of the Group's balance sheet on January 1, 2018 is summarized as follows:

	Before December 31, 2017	Adjustment amount	After January 1, 2018
Current assets:			
Financial assets at fair value through profit and loss	\$21,606,855	\$1,279,671	\$22,886,526
Available-for-sale financial assets (including cost measurement of \$327,313)	59,405,805	(59,405,805)	-
Financial assets at fair value through other comprehensive profit or loss	-	60,660,156	60,660,156
Held-to-maturity financial assets	17,600,000	(17,600,000)	-
Liability instrument investments for which no active market exists	1,980,968	(1,980,968)	-
Financial assets based on cost after amortization	-	17,597,864	17,597,864
Current liabilities:			
Liability reserve	473,759	33,318	507,077
Equity:			
Retained earnings	15,533,279	(271,485)	15,261,794
Other equity	2,037,561	789,085	2,826,646

(1) IFRS 9 "Financial instruments"

IFRS 9 replaced the requirements of IAS 39. The Group has chosen not to have the financial statements re-prepared for the comparison periods on the first-time application (January 1, 2018) in accordance with the transitional provisions of IFRS 9. The impact of adopting IFRS 9 is as follows:

A. IFRS 9 has been adopted since January 1, 2018. IAS 39 was adopted before January 1, 2018. Please refer to Note IV for the explanation of accounting policies.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

B. According to the transitional provisions of IFRS 9, based on the facts and circumstances existing on January 1, 2018, the business model is evaluated and the financial assets are classified appropriately according to the provisions of IFRS 9. The classification and book value of financial assets on January 1, 2018 are illustrated as follows:

International Accounting Standard No. 39 (IAS 39)		International Financial Reporting Standard No. 9 (IFRS 9)	
Classification of measurement	Book value	Classification of measurement	Book value
Measured at fair values through profit and/or loss	\$21,606,855	Measured at fair values through profit and/or loss	\$22,886,526
Measured at fair values through other comprehensive income		Measured at fair values through other comprehensive income	60,660,156
Available-for-sale financial assets (including cost measurement of \$327,313)	59,405,805		
Measurement of amortized cost		Measurement of amortized cost	
Held-to-maturity financial assets	17,600,000		
Loans and accounts receivable:			
Cash and cash equivalents (excluding cash on hand)	2,952,068	Cash and cash equivalents (excluding cash on hand)	2,952,068
Due from Central Bank and lend to Banks	14,535,143	Due from Central Bank and lend to Banks	14,535,143
Bonds and securities sold under repurchase agreements	2,565,772	Financial assets based on cost after amortization	17,597,864
Accounts receivable	2,669,418	Bonds and securities sold under repurchase agreements	2,565,772
Discounts and loans	142,947,865	Accounts receivable	2,669,418
Other financial assets	1,356	Discounts and loans	142,947,865
Liability instrument investments for which no active market exists	1,980,968	Other financial assets	1,356
	<u>167,652,590</u>	Subtotal	<u>183,269,486</u>
Subtotal	<u>185,252,590</u>		
Liability reserve	(473,759)	Liability reserve	(507,077)
Total	<u>\$265,791,491</u>	Total	<u>\$266,309,091</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

C. When transiting from the provision of IAS 39 to IFRS 9 on January 1, 2018, the classification of financial assets and financial liabilities is further described as follows:

International Accounting Standard No. 39 (IAS 39)	International Financial Reporting Standard No. 9 (IFRS 9)	Amount of difference	Retain earnings adjustment amount	Other equity adjustment amount
Account titles	Book value	Account titles	Book value	Book value
Financial assets				
Financial assets at fair value through profit and loss				
Held-for-trade (Note 1)	\$21,606,855	Measured at fair values through profit and/or loss	\$21,606,855	\$- \$- \$-
Available-for-sale financial assets (including original investment cost of \$327,313 and listed independently at cost) (Note 2) (Note 4)	1,279,671	Measured at fair values through profit and/or loss	1,279,671	- (65,919) 65,919
	1,178,305	Equity measured at fair value through other comprehensive income	1,654,505	476,200 - 476,200
	56,947,829	Debt instrument measured at fair value through other comprehensive income	56,947,829	- (166,922) 166,922
Subtotal	<u>59,405,805</u>			
Held-to-maturity financial assets (Note 3) (Note 4)	17,600,000	Financial assets based on cost after amortization	17,597,864	(2,136) (2,136) -
Loans and accounts receivable (Note 3) (Note 4)				
Debt instrument investment without a market price available	1,980,968	Debt instrument measured at fair value through other comprehensive income	2,057,822	76,854 (3,190) 80,044
Cash and cash equivalents (excluding cash on hand)	2,952,068	Cash and cash equivalents (excluding cash on hand)	2,952,068	- - -
Due from Central Bank and lend to Banks	14,535,143	Due from Central Bank and lend to Banks	14,535,143	- - -
Bonds and securities sold under repurchase agreements	2,565,772	Bonds and securities sold under repurchase agreements	2,565,772	- - -
Accounts receivable	2,669,418	Accounts receivable	2,669,418	- - -
Discounts and loans	142,947,865	Discounts and loans	142,947,865	- - -
Other financial assets	1,356	Other financial assets	1,356	- - -
Subtotal	<u>167,652,590</u>			
Financial liabilities				
Liabilities reserve (Note 4)	(473,759)	Liability reserve	(507,077)	(33,318) (33,318) -
Total	<u>\$265,791,491</u>	Total	<u>\$266,309,091</u>	<u>\$(271,485)</u> <u>\$789,085</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Note:

1. The held-for-trade financial assets measured at fair value through profit or loss according to IAS 39 include funds, beneficiary certificates, convertible corporate bonds, derivative financial instruments, and listed company's stock investments. As the cash flow characteristics of these investments are not entirely attributable to the principal and the interest of the outstanding principal amount, they are classified as measured at fair value through profit or loss in accordance with IAS No. 9.
2. Classified as an available-for-sale financial assets investment, including funds, beneficiary certificates, stocks, and bonds in accordance with IAS No. 39. The relevant information on the classification changes is as follows:

- a. Fund and beneficiary certificate

As the cash flow characteristics of the fund and beneficiary certificate are not entirely attributable to the principal and the interest of the outstanding principal amount, they are classified as measured at fair value through profit or loss mandatorily according to the provisions of IFRS 9. An amount of NT\$340,755 thousand was reclassified from the available-for-sale financial assets to the financial assets measured at fair value through profit or loss on January 1, 2018. In addition, the change in fair value of those booked under "other equity" for an amount of NT\$(66,760) thousand was reclassified to retained earnings.

- b. Stock investment (including the stocks of listed and unlisted company)

Among the available-for-sale financial assets, the stock investment that is measured at fair value, when it is derecognized, the accumulated profit or loss previously recognized in the "other comprehensive gains and losses" should be reclassified from the equity to profit or loss. However, if the subsequent fair value changes of the aforementioned stock investments are included in other comprehensive gains and losses according to the provision of IFRS 9, the amounts included in other comprehensive gains and losses cannot be subsequently transferred to profit or loss, when it is derecognized, the accumulated amount in the other equity should be transferred directly to the retained earnings (not reclassified to profit or loss).

Assessed according to the facts and circumstances that existed on January 1, 2018, except for having those not held-for-trade investment options designated as financial assets measured at fair value through other comprehensive income, and the rest were reclassified as financial assets measured at fair value through profit or loss mandatorily.

The not held-for-trade investments were reclassified from available-for-sale financial assets (including cost for NT\$327,313 thousand) to the financial assets measured at cost through other comprehensive income for an amount of NT\$1,178,305 thousand on January 1, 2018. The relevant adjustments are as follows:

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

- (a) For the unlisted stock that was previously measured at cost according to IAS 39, its original book value of NT\$327,313 thousand does not need to recognize impairment loss according to the provision of IFRS 9. Also, it must be measured at fair value. The Group had its fair value measured and booked for an amount of NT\$803,513 thousand on January 1, 2018. Therefore, the book value of the financial assets measured at fair value through other comprehensive income was adjusted to NT\$476,200 thousand. Also, the other equity is adjusted to NT\$476,200 thousand.
- (b) The listed company's stock of NT\$850,992 thousand measured at fair value did not result in a difference in the book value. It was reclassified on January 1, 2018 to the account that was measured at fair value through other comprehensive income. The items in the other equity were reclassified.

The financial assets that were reclassified from the available-for-sale financial assets to the financial assets measured at fair value through profit or loss on January 1, 2018 was for an amount of NT\$938,916 thousand. This stock is measured at fair value and the reclassification does not result in a difference in the book value.

c. Bonds

The cash flow of the bond investment is mainly for the payment of the principal and the interest of the outstanding principal amount. According to IFRS 9, if the business model is to collect and sell a contractual cash flow, it is reclassified as a financial asset measured at fair value through other comprehensive income. This reclassification does not result in a difference in the book value.

- 3. It is classified as held-to-maturity financial assets by the Group in accordance with IAS No. 39, and its cash flow is mainly for the payment of the principal and the interest of the outstanding principal amount. Assessed according to the facts and circumstances that existed on January 1, 2018, the business model was for collecting contractual cash flow, which was in line with the requirement of being measured at the amortized cost. Therefore, on January 1, 2018, the held-to-maturity financial assets for an amount of NT\$17,600,000 thousand were reclassified as financial assets measured at the amortized cost.

The Group's cash flow of the bond investment is mainly for the payment of the principal and the interest of the outstanding principal amount. According to the provisions of IFRS 9, assessed according to the facts and circumstances that existed on January 1, 2018, if the business model was to collect and sell a contractual cash flow, the debt instrument investments without a market price available for an amount of NT\$1,980,968 thousand were reclassified as a financial assets measured at fair value through other comprehensive income. However, according to the provisions of IFRS 9, it must be measured at fair value. This reclassification resulted in the book value of the financial assets and other equity increasing by NT\$2,057,822 thousand and NT\$80,044 thousand, respectively.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

4. Financial asset impairment assessment

Adjusted the allowance for impairment balance that was recognized in accordance with the loss model of the IAS 39 in the previous period to the allowance for impairment balance that was recognized in accordance with the loss model of IFRS 9 on January 1, 2018 as follows:

Type of measurement	The balance of provision for impairment under IAS 39 and the amount appropriated under IAS37	Reclassification	Reevaluation	The balance of provision for impairment under IFRS 9
Available-for-Sale Financial Assets (IAS39)				
Classified to the financial assets measured at fair value through other comprehensive income (IFRS9)	\$-	\$-	\$166,922	\$166,922
Held-to-maturity (IAS39)				
Classified to financial assets measured at amortized cost (IFRS9)	-	-	2,136	2,136
Debt instrument investment without an available market price (IAS39)				
Classified to the financial assets measured at fair value through other comprehensive income (IFRS9)	-	-	3,190	3,190
Commitment of financing and guaranty liability				
Loan (financing commitment)	-	-	33,318	33,318
Total bookkeeping amount	\$-	\$-	\$205,566	\$205,566

For financial assets that are not measured at fair value through profit or loss, according to the provisions of IFRS 9, the impairment of debt instruments and financing commitments is assessed with the estimated credit loss model. The financial assets and retained earnings measured at amortized cost are reduced by NT\$2,136 thousand and NT\$205,566 thousand under this assessment, respectively. Also, the liability reserve and other equity are increased by NT\$33,318 thousand and NT\$170,112 thousand, respectively.

D.Please refer to Note IV, V, VI, and XII for the notes and disclosures as stipulated in IFRS 7 and IFRS 9.

2. The Group has not yet adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	IFRS 16 "Leases"	January 1, 2019
2	International Financial Reporting Interpretations Committee (IFRIC) No. 23 "Uncertainty Over Income Tax Treatments".	January 1, 2019
3	Amendments to IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2019
4	Early repayment characteristics with negative compensation (Amendment to IFRS 9)	January 1, 2019
5	Annual Improvements to IFRSs: 2015-2017 Cycle	January 1, 2019
6	Plan revision, reduction, or liquidation (Amendment to IAS 19)	January 1, 2019

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(1) IFRS 16 “Leases”

This new standard requires the lessee to adopt an accounting model for all leases, except for leases that meet and select a short-term lease or low-value target assets. In other words, recognize the right-of-use assets and lease liabilities on the balance sheet. Also, the depreciation expenses and interest expenses related to the lease are recognized in the consolidated income statement. In addition, the lessor's leases are classified as operating leases and finance leases, provided that more relevant disclosure information is required.

(2) International Financial Reporting Interpretations Committee (IFRIC) No. 23 “Uncertainty Over Income Tax Treatments”.

The interpretation specifications provide how to apply the recognition and measurement of IAS 12 “Income Taxes” when there is uncertainty about the tax treatment.

(3) Amendments to IAS 28 “Investments in Associates and Joint Ventures”

According to this amendment, the long-term equity that is part of an investment of an affiliate or a joint venture is subject to IFRS 9 before being subject to IAS 28. Also, any adjustment that could result from being subject to IAS 28 is not considered when IFRS 9 is applied.

(4) Early repayment characteristics with negative compensation (Amendment to IFRS 9)

This amendment allows having the financial assets with an early repayment characteristic (allowing the contractual party to pay or receive reasonable compensation for having the contract terminated early) be measured at amortized cost or measured at fair value through other comprehensive income.

(5) Annual Improvements to IFRSs: 2015-2017 Cycle

IFRS 3 “Business Combinations”

This amendment clarifies that when an enterprise has joint control over the joint operations, the previously held equity in joint operations should be measured again.

IFRS 11 “Joint arrangements”

The amendment clarifies that when an enterprise has joint control over the joint operations without having the joint control at the first place, the previously held equity in joint operations will not be measured again.

IAS 12 “Income Tax”

The amendment clarifies that the enterprise should recognize the income tax effect of dividends according to the previous transactions or events recognized in profit or loss, other comprehensive income, or equity.

IAS 23 “Borrowing Costs”

This amendment clarifies that an enterprise should treat borrowings specifically borrowed for the assets in the form of a general borrowing when the asset is available for its intended use or sale.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(6) Plan revision, reduction, or liquidation (Amendment to IAS 19)

This amendment clarifies that when there are changes in the defined benefit plan (such as, amendments, reductions, or settlements), the company should use the updated assumptions to re-measure its net defined benefit liabilities or assets.

The above is the new publications, revisions, and amendments or interpretations announced by the International Accounting Standards Board and approved by the FSC and applied since January 1, 2019. The Group has assessed and concluded that, except for the impact in (1) above is described below, the remaining new announcements or amendments to the standards or interpretations have no material impact on the Group.

(1) IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", International Financial Reporting Interpretations Committee (IFRIC) No. 4 "Determining whether an arrangement includes leases", Interpretation No. 15 "Business Leasing: Incentives", and Interpretation Announcement No. 27 "Assessing the substance of the transaction in the legal form involving the lease". The impact of IFRS 16 on the Group is described as follows:

A. For the definition of lease, the Group applies the transitional provisions of IFRS 16 and chooses not to reassess whether the contract is (or includes) a lease on the first-time application date (i.e. January 1, 2019). The Group applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRS 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRS 4 were previously applied does not apply to IFRS 16.

The Group is a lessee and chooses not to re-compile comparative information according to the transitional provisions of IFRS 16. The cumulative amount of the initial application was recognized on January 1, 2019 and it was adjusted to the beginning balance of the retained earnings (or other composition of equity, if applicable) on the first-time application date.

A lease that is classified as an operating lease

The Group expects to have the present value (discounted at the incremental borrowing interest rate of the lessee on January 1, 2019) of the remaining lease that was classified as an operating lease when applying IAS 17 measured and recognized as a lease liability on January 1, 2019. In addition, on the basis of individual leases, the Group chooses to measure and recognize the right-of-use assets according to the lease liability amount (but adjusting the lease payments amount that is prepaid or payable in relation to the lease).

The Company expects that the right-of-use assets and lease liability will be increased by NT\$271,864 thousand and NT\$271,864 thousand on January 1, 2019, respectively.

B. Additional disclosure of relevant notes is added according to the provisions of IFRS 16 "Lessees and lessors".

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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3. As of the date of the financial report published, the Group has not adopted the following new publication, revision, and amendment or interpretation of the standards announced by the International Accounting Standards Board but not yet approved by the FSC.

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.	To be determined by the "International Accounting Standards Board (IASB)".
2	IFRS 17 "Insurance Contracts"	January 1, 2021
3	Definition of Business - Amendment to IFRS 3 "Business Combinations".	January 1, 2020
4	Definitions of "Significance" - Amendments to IAS 1 and 8.	January 1, 2020

- (1) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.

This plan is to handle the inconsistency on the loss of control due to the investment in associates or joint ventures by subsidiaries according to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures". When investing in non-monetary assets to exchange for the equity of the associates or joint ventures according to IAS 28, the resulting profits or losses should be eliminated in accordance with the treatment of downstream transactions. According to IFRS 10, the profit or loss should be recognized fully when losing control over the subsidiaries. This amendment limits the foregoing provisions of IAS 28. When it is constituted as the sale or investment of business assets as stipulated in IFRS 3, the resulting profit or loss should be fully recognized.

This amendment also modifies IFRS 10 to enable investors and their associates or joint ventures to recognize the profit or loss to the extent of the portion that is not distributed to the investors when selling or investing in subsidiaries that do not meet the definition as stipulated in IFRS 3.

- (2) IFRS 17 "Insurance Contracts"

This standard provides a comprehensive model of insurance contract, including all accounting related parts (recognition, measurement, expression, and disclosure principles). The core of the standard is a general model. Regarding this model, the original recognition is based on the total amount of the contractual cash flow and contractual services margin to measure the insurance contracts, of which, the contractual cash flow includes:

- A. Estimated future cash flow
- B. Discount rate: Adjustments that reflect the time value of money and the financial risks (within the estimation range of the future cash flow that does not include financial risk) associated with future cash flows; and
- C. Adjustment of non-financial risks

The book value of the insurance contracts at the end of each reporting period is the sum of the remaining security liabilities and the claims liabilities incurred.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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In addition to the general model, it provides:

- A. Specific applicable method (variable fee approach) for the contracts with a direct participation characteristic
- B. Simplification of short-term contracts (Premium Allocation Approach)

(3) Definition of business (Amendment to IFRS 3)

This amendment clarifies the definition of business as stipulated in IFRS 3 "Business Combinations" to help enterprises identify that transactions are handled in accordance with the business combination or the assets acquisition approach. IFRS 3 continues to determine whether the acquisition activity or assets portfolio is a business from the viewpoint of the market participants, including clarifying the minimum requirements of the business, adding guidance to assist enterprises in assessing whether the process of acquisition is substantial, and reducing the definition of the business and output.

(4) Definitions of "Significance" (Amendments to IAS 1 and 8)

The definition of the "material information" is amended as: The omission, misrepresentation, or ambiguity of certain information is expected to affect the decisions made by the primary users of the general-purpose financial statements. This amendment clarifies that the degree of significance will depend on the nature or size of the information. An enterprise will need to consider whether the information in the financial statements is individually or collectively significant. If it is reasonably expected to affect the primary user, the misrepresented information is significant.

The aforementioned standards or interpretations have been issued by the IASB but have not yet been approved by the FSC. The actual date of application is subject to the requirements of the FSC. The new announcement or amendment of the standard or interpretation has no significant impact on the Group.

IV. Summary of significant accounting policies

1. Compliance Statement

The consolidated financial statements of the Group for the period of January 1 - December 31, 2018 and 2017 are prepared according to 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, International Accounting Standards, International Financial Standards Interpretations, and Interpretations Notices that are approved and published by the Financial Supervisory Commission.

2. Basis of preparation

The consolidated financial statements are based on historical cost, except for financial instruments measured at fair value. Unless otherwise stated, the consolidated financial statements are prepared in the currency of New Taiwan Dollars (NT\$ Thousand).

3. Consolidation

The basis of preparation for consolidated financial statements

Control is achieved when the Company is exposed to variable returns due to the participation in the invested company or from the right in such variable returns, and through its ability over the invested company to influence such variable returns. In particular, the Company only controls the invested company when the Company has had the following

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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three control elements:

- (1) The power over the invested company (i.e. having the vested rights to lead the relevant activities)
- (2) The risk exposure or right of the variable returns from participating in the invested company, and
- (3) The ability to influence the amount of returns of the invested company by exercising power over the invested company

When the Company directly or indirectly holds less than a majority of the voting rights or similar rights of the invested company, the Company considers all relevant facts and circumstances to assess whether it has power over the invested company, including:

- (1) Contractual agreements with other voting rights holders of the invested company;
- (2) Rights arising from other contractual agreements;
- (3) Voting rights and potential voting rights

When facts and circumstances indicate that one or more of the three control elements have changed, the Company reassesses whether it still has control over the invested company.

Subsidiaries are all compiled into the consolidated statements from the date of acquisition (i.e. the date on which the Company obtains control) until the date of losing control over the subsidiaries. The accounting period and accounting policies for the financial statements of the subsidiaries are consistent with that of the parent company. The Group's internal account balances, transactions, unrealized internal gains and losses, and dividends arising from intra-group transactions are fully written-off.

Changes in the shareholding of a subsidiary, if the control over the subsidiary is not lost, the change in the equity is treated as an equity transaction.

The total comprehensive income of the subsidiaries is attributable to the shareholders and non-controlling equity of the Company, even if the non-controlling equity results in a loss.

If the Company loses control over the subsidiary, then

- (1) The assets (including goodwill) and liabilities of the subsidiaries are derecognized.
- (2) The book value of any non-controlling equity is derecognized.
- (3) Recognize the fair value of the considerations obtained.
- (4) Recognize the fair value of any investment retained.
- (5) Recognize any gain or loss as current profit or loss.
- (6) The amount of items recognized in other comprehensive income previously by the parent company is reclassified in the profit or loss.

The main business entity of the consolidated financial statements is as follows:

Investor	Subsidiary name	Main business	Equity ratio held		
			2018.12.31	2017.12.31	
The Company	Tainan Life Insurance Agent Co., Ltd.	Insurance Agent	100.00%	100.00%	(Notes)
The Company	Fu Chen Property Insurance Agent Co., Ltd.	Insurance Agent	100.00%	100.00%	(Notes)
The Company	KTB International Leasing Co., Ltd.	Leasing	100.00%	100.00%	

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

Investor	Subsidiary name	Main business	Equity ratio held	
			2018.12.31	2017.12.31
King's Town Bank International Leasing	KTB International Real Estate Management Co., Ltd.	Real Estate Management	100.00%	100.00%

The total profit or loss of the subsidiaries in 2018 and 2017 was NT\$239,635 thousand and NT\$355,377 thousand, respectively.

(Note) In order to integrate resources, reduce operating costs, and achieve business synergy, the Company's Board of Directors resolved on June 6, 2016 to merge with Tainan Life Insurance Agent Co., Ltd., and Fu Chen Property Insurance Agent Co., Ltd. The Company is the continuing business entity after the merger. Tainan Life Insurance Agent Co., Ltd., and Fu Chen Property Insurance Agent Co., Ltd., were discontinued. The merger as of December 31, 2018 had not yet been approved by the competent authorities.

4. Foreign currency transactions

The consolidated financial statements of the Group are expressed in the Company's functional currency (New Taiwan Dollars). Each subsidiary of the Group determines its own functional currency and measures its financial statements in that functional currency.

The foreign currency transactions of each subsidiary of the Group are converted to its functional currency according to the exchange rate on the transaction date. At the end of each reporting period, foreign currency monetary items are translated at the closing exchange rate of the day. The foreign currency non-monetary items measured at fair value are translated at the exchange rate on the date of fair value applied. The foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the original trading day.

Except for the following, the exchange differences arising from the clearing or translation of monetary items are recognized as profit or loss in the period in which they are incurred:

- (1) For the foreign currency borrowings arising from acquiring assets that meet the requirements, the resulting exchange differences are treated as an adjustment to the interest cost and are capitalized as part of the borrowing cost.
- (2) Foreign currency projects subject to the provisions of IFRS 9 "Financial Instruments" (before January 1, 2018, IAS 39) are treated in accordance with the accounting policies of financial instruments.
- (3) For the monetary items of the reporting entity that are an integral part of the net investment in the foreign operating institution, the resulting exchange differences were originally recognized in other comprehensive income and are reclassified from equity to profit or loss when the net investment is disposed.

When the profit or loss of a non-monetary item is recognized as other comprehensive income, any exchange profit or loss is recognized in other comprehensive income. When the profit or loss of a non-monetary item is recognized in profit or loss, any exchange profit or loss is recognized in profit or loss.

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5. Conversion of financial statements in foreign currency

When preparing the consolidated financial statements, the assets and liabilities of foreign operating institutions are translated into New Taiwan Dollars at the closing exchange rate on the balance sheet date. The income and loss items are translated at the average exchange rate for the current period. The exchange difference arising from the conversion is recognized as other comprehensive income. When the foreign operating institution is closed, the accumulated exchange difference previously recognized in other consolidated profit or loss and included in the equity is reclassified from the equity to the profit or loss at the time of recognizing the disposal profit or loss.

6. Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits, and short-term and highly liquid time deposits or investments (including time deposits with a contract period within 12 months) that are readily convertible into fixed cash amount and have a very low risk of changes in value. For the consolidated cash flow statement, it also includes the deposits at the Central Bank, interbank lending, and resell (RS) bill and bond investments in accordance with the cash and cash equivalent stipulated in IAS 7 that is approved by the FSC.

7. Bonds Purchased under Resell/Notes Issued under Repurchase Agreements

The accounting process of RP/RS and bond transactions is as follows: (1) For an RP bill transaction, credit the RP bill and bond liability. The trade difference is booked as an interest expense; (2) For an RS bill transaction, debit the RS bill and bond investment. The trade difference is booked as interest income.

8. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the financial instrument contract.

Financial assets and financial liabilities subject to the provisions of IFRS 9 "Financial Instruments" (before January 1, 2018, IAS 39), at the time of original recognition, were measured at fair value. The acquisition or issuance transaction costs that are directly attributable to the financial assets and financial liabilities (except for financial assets and financial liabilities that are classified as measured at fair value through profit or loss) are added or subtracted from the fair value of the financial assets and financial liabilities.

(1) Recognition and measurement of financial assets

The accounting treatment since January 1, 2018 is as follows

The recognition and de-recognition of all the financial assets of the Group are handled with the trade date accounting.

The Group uses the following two items to have financial assets classified as subsequently measured at amortized cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss:

A. Operating model of financial assets management

B. Contractual cash flow characteristics of financial assets

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Financial assets based on cost after amortization

Financial assets that meet the following two conditions are measured at amortized cost and booked in the balance sheet in terms of notes receivable, accounts receivable, financial assets measured at amortized cost, and other receivables.

- A. Operating model of financial assets management: hold financial assets to collect contractual cash flow
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

These financial assets (excluding those involved in hedging) are subsequently measured at the amortized cost [(the amount measured at the time of original recognition, less the principal paid, plus or minus the cumulative amortization amount (with the effective interest method) between the original amount and the amount due), and adjusting the allowance for loss]. For de-recognition, the benefits or losses are recognized in profit or loss through amortization procedures or recognition of impairment profit or loss.

Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:

- A. For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
- B. Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of the financial assets.

Financial assets at fair value through other comprehensive profit or loss

Financial assets that meet the following two conditions are measured at fair value through other comprehensive income and are expressed on the balance sheet as financial assets measured at fair value through other comprehensive income:

- A. Operating model of financial assets management: Collect contractual cash flows and sell financial assets.
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

The recognition of the profit or loss related to such financial assets is as follows:

- A. Before de-recognition or reclassification, except for the impairment profit or loss and foreign currency exchange gains and losses recognized in profit or loss, the profit or loss is recognized in other comprehensive income.
- B. At the time of de-recognition, the cumulative profit or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment.
- C. Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:
 - (a) For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.

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- (b) Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of financial assets.

In addition, for an equity instrument that is subject to IFRS 9 and the equity instrument is neither held for trading nor is subject to the contingent considerations recognized by the acquirer as stipulated in IFRS 3 "Business Combinations", in the original recognition, the subsequent changes in fair value are booked in other comprehensive income (irrevocably). The amount included in other comprehensive income cannot be subsequently transferred to profit or loss (when the equity instruments are disposed of, the accumulated amounts included in other equity items are transferred directly to retained earnings). Also, it is booked as a financial asset measured at fair value through other comprehensive income on the balance sheet. Investment dividends are recognized in profit or loss unless such dividend clearly represents a recovery of the investment cost.

Financial assets at fair value through profit and loss

Financial assets are measured at fair value through profit or loss and are booked in the balance sheet as financial assets measured at fair value through profit or loss, except for the financial assets in the preceding paragraph that meet certain conditions and are measured at amortized cost or measured at fair value through other comprehensive income.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset.

The accounting treatment before January 1, 2018 is as follows:

The recognition and de-recognition of all the financial assets of the Group are handled with the trade date accounting.

The Group's financial assets are classified into four categories: Financial assets measured at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The said classification is determined depending on the nature and purpose of the financial assets initially recognized.

Financial assets at fair value through profit and loss

Financial assets measured at fair value through profit or loss include held-for-trade and those designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

- A. It is obtained mainly for the purpose of being sold in the short-term.
- B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
- C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivative financial instruments, an

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overall hybrid (combined) contract can be designated as a financial asset measured at fair value through profit or loss, or when one of the following factors is met to provide more relevant information, it is designated to be measured at fair value through profit or loss when it is originally recognized:

- A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
- B. The financial assets, financial liabilities or both, according to a written risk management or investment strategy, are managed at fair value with the performance evaluated and the investment portfolio information provided to management within the consolidated company is also based on the fair value.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset (including those received in the investment year).

If such financial assets are without an available market price and the fair value cannot be reliably measured, the financial assets are measured at the net cost of impairment loss at the end of the reporting period and the financial assets measured at the cost are presented on the balance sheet.

Available-for-Sale Financial Assets

The available-for-sale financial assets are non-derivative financial assets and they are designated for sale or are not classified as financial assets measured at fair value through profit or loss, held-to-maturity investments, or loans and receivables.

The exchange difference of the change in the book value of the available-for-sale monetary financial assets, the interest income from the available-for-sale financial assets calculated with the effective interest method, and the dividend income from the available-for-sale equity investment are recognized in profit or loss. The change in the book value of other financial assets is recognized in equity before such investment is de-recognized. When de-recognizing, the accumulated amount previously recognized in the equity is reclassified to the profit or loss.

For an equity instrument investment, if there is no market price available and the fair value cannot be reliably measured, it is measured at the net cost of impairment loss at the end of the reporting period and the financial assets measured at the cost are presented on the balance sheet.

Held-to-maturity financial assets

Non-derivative financial assets are classified as held-to-maturity financial assets if they have a fixed or determinable payment amount, and the Group has positive intentions and ability to hold it until its maturity date, except for the following items: Designated to be measured at fair value through profit or loss when recognized originally, designated for sale and in compliance with the definition of loans and receivables.

These financial assets, after the original measurement, are measured at the amortized cost with the effective interest method and net of the impairment loss. The calculation

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of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition. The amortization with the effective interest method applied is recognized in profit or loss.

Loans and accounts receivable

Loans and receivables are non-derivative financial assets without an available market price, but with a fixed or determinable amount, and are subject to the following conditions: not classified as measured at fair value through profit or loss, not designated for sale, and the holder did not face the possibility of being unable to recover almost all of the original investment due to factors other than credit deterioration.

These financial assets are separately stated in the balance sheet in terms of receivables and debt instrument investments without an available market price. After the original measurement, it is measured at the amortized cost with the effective interest method applied net of the impairment. The calculation of the amortized cost takes into account the discount or premium at the time of acquisition and the transaction cost. The amortization with the effective interest method applied is recognized in profit or loss.

(2) Impairment of Financial Assets

The accounting treatment since January 1, 2018 is as follows

For the debt instrument investments measured at fair value through other comprehensive income, debt instrument investments measured at amortized cost, and off-balance sheet debt instrument, the Group has them recognized as expected credit loss and with the allowance for loss measured. The debt instrument investment measured at fair value through other comprehensive income has the allowance for loss recognized in other comprehensive income. Also, the book value of the investment is not decreased. Loans and receivables and off-balance sheet credit assets are recognized and measured in accordance with the expected credit losses. Also, adequate allowances, guaranteed liability reserves, and financing commitment reserves are appropriated according to whichever is higher according to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans".

The Group measures expected credit losses to reflect the following:

- A. An amount that is unbiased and weighted by probability through evaluating each possible outcome
- B. Time value of money
- C. Reasonable and corroborative information (that can be obtained on the balance sheet date without excessive costs or inputs) relating to past events, current conditions, and future economic forecasts

The methods used for measuring allowance for loss are as follows:

- A. It is measured by the 12-month expected credit loss amount: Including the credit risk that has not increased significantly since the original recognition of the financial assets, or it is determined as low credit risk on the balance sheet date. In addition, it also includes the allowance for loss measured by the expected credit loss of the duration in the previous reporting period, but which no longer meets the condition

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that the credit risk has increased significantly since the original recognition on the balance sheet date.

- B. The expected credit loss amount for the duration: Includes the significant increase in credit risk of the financial assets since the original recognition, or the financial assets with credit impairment purchased or originated.
- C. For accounts receivable or contractual assets arising from transactions within the scope of IFRS 15, the Group measured the allowance for loss with the expected credit loss amount of the duration.

In addition to the aforementioned assessments, the Company also has the credit assets assessed and classified according to the following classification methods by referring to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". Regarding the classification methods, except for the normal credit assets classified in Category I, non-performing credit assets are evaluated according to the status of the loan collateral and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful" and Category V "Loss".

The allowance for bad debt is appropriated for a minimum amount equivalent to the total of 1% of net Class I credit assets of the obligation to Taiwanese government agencies, 2% of Class II credit assets, 10% of Class III credit assets, 50% of Class IV credit assets, and 100% of Class V credit assets.

On each balance sheet date, the Group assesses whether the credit risk of financial instruments after the original recognition has increased significantly by comparing the changes in the default risk of the financial instruments on the balance sheet date and the original recognition date. In addition, please refer to Note XII for information related to credit risk.

The accounting treatment before January 1, 2018 is as follows:

Except for financial assets measured at fair value through profit or loss, other financial assets are measured for impairment at the end of each reporting period. When there is objective evidence that the future cash flow of the financial assets is damaged due to a single or multiple loss event occurring after the original recognition of the financial assets, the impairment of the financial asset has occurred. For the decrease in the book value of financial assets, except for the receivables to be adjusted down with the allowance account, the rest is directly deducted from the book value with the loss recognized in profit or loss.

If the fair value of an available-for-sale equity investment is less than the cost and a significant or permanent decline occurs, it is considered a loss.

Losses of other financial assets may include:

- A. Significant financial difficulties which occur to the issuer or counterparty; or
- B. Breach of contract, such as, delay or non-performing payment of interest or principal; or
- C. The debtor is likely to go bankrupt or initiate other financial restructuring; or
- D. The active market for financial assets disappeared due to the financial difficulties of the issuer.

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For the held-to-maturity financial assets and loans and receivables that are measured at amortized cost by the Group, first of all, assess whether there is objective evidence of impairment occurring to significant individual financial assets, and insignificant individual financial assets are assessed collectively. If it is determined that the financial assets assessed individually lack objective evidence of impairment, regardless of their significance, any financial assets with similar credit risk characteristics are combined into one group for a collective assessment of impairment. If there is objective evidence of impairment loss, the measurement of the loss is determined by the difference amount between the book value of the asset and the present value of the estimated future cash flows. The estimated present value of the future cash flows is discounted at the original effective interest rate of the asset. However, if the loan has a floating rate, the discount rate adopted to measure the impairment loss is the current effective interest rate. Interest income is based on the reduced book value of the asset and is continuously estimated and booked at the cash flow discount rate that is used to calculate impairment loss.

Receivables and related allowances should be written off when the receivables are not expected to be collected in the future. In the subsequent years in which the impairment loss is recognized, if the estimated impairment loss increases or decreases as a result of an event, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. The recovery of the write-off amount is recognized in profit or loss.

For available-for-sale equity instruments, the impairment loss amount is measured according to the cumulative loss measured by the difference between the acquisition cost and the current fair value, net of the impairment loss previously recognized in profit or loss, and it is reclassified from equity to profit or loss. Impairment losses of equity investments are not reversed through profit or loss. The increase in fair value after impairment is recognized directly in equity.

For the available-for-sale debt instrument, the impairment loss amount is measured according to the cumulative loss measured by the difference between the amortized cost and the current fair value, and net of the impairment loss previously recognized in profit or loss. The future interest income is based on the book value of the reduced asset, and it is imputed according to the effective interest rate that is used to calculate the discounted cash flow of impairment loss. The interest income is recognized in profit or loss. If the fair value of the debt instrument increases in subsequent years and the increase is significantly related to the event occurring after the impairment loss is recognized, the impairment loss is reversed through profit or loss.

(3) Derecognized financial assets

Financial assets held by the Group are derecognized when one of the following conditions is met:

- A. The contractual right from the cash flow of financial assets is terminated.
- B. The financial asset has been transferred and almost all of the risks and rewards of asset ownership have been transferred to others.
- C. Almost all risks and rewards of asset ownerships have not been transferred or retained, but the control of assets has been transferred.

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When a financial asset is derecognized entirely, the difference between the book value and the collected or collectible considerations plus any cumulative gain or loss recognized in other comprehensive gain or loss is recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liabilities or equity

The liability and equity instruments issued by the Group are classified as either financial liabilities or equity in accordance with the substance of the contractual agreements and the definition of financial liabilities and equity instruments.

Equity instruments

An equity instrument refers to any contract that recognizes the residual equity of the Group after the asset deducts the liabilities. The equity instruments issued by the Group are recognized at the amount obtained after deducting the direct issuance costs.

Compound instruments

The Group recognizes the financial liabilities and equity composition of the convertible corporate bonds issued according to its contractual terms. In addition, for the convertible corporate bonds issued, assess whether the economic characteristics and risks of the embedded call (put) option are closely related to the main debt instrument before distinguishing the equity elements.

For a liability that does not involve a derivative instrument, the fair value is assessed with the market interest rate of the equivalent and non-converting bond. Such liability before conversion or settlement is classified as a financial liability measured at the amortized cost. For the embedded derivative instrument (for example, the execution price of the embedded call (put) option cannot be equivalent to the amortized cost of the debt instrument on each execution date) that is not closely related to the economic characteristics of the principal contract, except for those classified as equity elements, it is classified as a liability and is measured at fair value through profit or loss in subsequent periods. The amount of the equity element is determined by the fair value of the convertible corporate bond net of the liability, and the book value will not be re-measured in the subsequent accounting period. If the issued convertible corporate bonds do not contain an equity element, they are handled in accordance with IFRS 9 (before January 1, 2018, IAS 39) hybrid financial instrument method.

The transaction costs are allocated to the liability and equity proportionally to the originally recognized convertible corporate bonds to the liability and equity elements.

When the holder of the convertible corporate bond requests to exercise the conversion right before the maturity date, the book value of the liability is first adjusted to the book value at the time of conversion, as the basis for the issuance of common stock shares.

Financial liabilities

Financial liabilities subject to the provisions of IFRS 9 (before January 1, 2018, IAS

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39) are classified, at the original recognition, as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit and loss

Financial liabilities measured at fair value through profits or losses include held-for-trade financial liabilities and financial liabilities designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

- A. It is obtained mainly for the purpose of being sold in the short-term.
- B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
- C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivatives, an overall hybrid (combined) contract can be designated as a financial liability measured at fair value through profit or loss. When the relevant information is provided upon complying with one of the following factors, the original recognition is designated as measured at fair value through profit or loss:

- A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
- B. The financial assets, financial liabilities or both, according to a written risk management or investment strategy, are managed at fair value with the performance evaluated and the investment portfolio information provided to management within the consolidated company is also based on the fair value.

The benefits or losses arising from the re-measurement of such financial liabilities are recognized in profit or loss. The gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Before January 1, 2018, if there was no market price available for such financial liabilities and the fair value could not be reliably measured, the financial liabilities should be measured at cost at the end of the reporting period and presented at cost in the balance sheet.

Financial liabilities measured at the amortized cost

Financial liabilities measured at the amortized cost, including payables and borrowings, are subsequently measured using the effective interest method after the original recognition. When a financial liability is derecognized and amortized through the effective interest method, its related profit or loss and amortization are recognized in profit or loss.

The calculation of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition.

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De-recognition of financial liabilities

When the obligation of a financial liability is discharged, canceled, or invalidated, the financial liability is derecognized.

When the Group and the creditors exchange opinions on a debt instrument with significant differences, or make major changes to all or part of the existing financial liabilities clauses (whether due to financial difficulties or not), it is handled by having the original liabilities derecognized and new liabilities recognized. When financial liabilities are derecognized, the difference between the book value and the total amount (including the transferred non-cash assets or liabilities assumed) of the considerations paid or payable is recognized in profit or loss.

(5) Financial assets and liabilities written-off against each other

Financial assets and financial liabilities can only be offset and presented with the net amount on the balance sheet only when the recognized amounts can be offset currently by law and are intended to be cleared on a net amount or having assets sold for cash and liability liquidated simultaneously.

9. Derivatives

Derivatives held or issued by the Group are used to hedge exchange rate risk and interest rate risk, of which, the designated and effective hedging items are reported as hedging derivative assets or liabilities on the balance sheet. For those not designated but effective hedging, they are presented on the balance sheet as financial assets or financial liabilities measured at fair value through profit or loss.

The original recognition of a derivative is measured at the fair value on the derivative contract date and it is also measured at fair value subsequently. When the fair value of a derivative is positive, it is a financial asset. When the fair value of a derivative is negative, it is a financial liability. Changes in the fair value of derivatives are recognized directly in profit or loss, except for cash flow with effective hedging and net operating investment of foreign operating entities with effective hedging directly recognized in the equity.

Before January 1, 2018, when the economic characteristics and risks of derivative instruments embedded in the main contract were not closely related to the main contract, and the main contract was not held for trading or designated to be measured at fair value through profit or loss, this embedded derivative should be treated as a separate derivative. However, since January 1, 2018, the aforementioned provisions are applicable to the main contract of financial liabilities or non-financial assets.

10. Fair value measurement

Fair value is the price that would be collected for the assets sold or the price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. Fair value measurement is with an assumption that the sale of the asset or the transfer of the liability occurs in one of the following markets:

- (1) The main market for the asset or liability, or
- (2) If there is no major market, the most favorable market for the asset or liability;

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The primary or most favorable market must be available for the Group to conduct trades.

The fair value measurement of an asset or liability is based on the assumption that the market participants used in pricing the assets or liabilities, assuming that such market participants will use the assumption the most economically practical way.

The fair value measurement of a non-financial asset takes into account the market participant's use of the asset for its highest and best utilization or sale of the asset to another market participant who will use the asset for its highest and best utilization in order to generate economic benefits.

The Group uses valuation techniques that are appropriate with sufficient data available in the relevant circumstances to measure fair value and maximize the use of observable inputs and minimize the use of unobservable inputs.

11. Impairment of non-financial assets

The Group at the end of each reporting period assesses whether all assets subject to IAS 36 "Impairment of Assets" are showing signs of impairment. If there is any indication of impairment or an impairment test is required for an asset on a regular basis each year, the Group tests the individual asset or the cash-generating unit to which the asset belongs. If the book value of an asset or the cash-generating unit to which the asset belongs is greater than the recoverable amount in an impairment test, the impairment loss is recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of each reporting period, the Group assesses assets other than goodwill to see whether there are indications that the previously recognized impairment losses may no longer exist or may be decreased. In the event of such an indication, the Group estimates the recoverable amount of the asset or cash-generating unit. If the recoverable amount is increased due to the change in the estimated service potential of the asset, the impairment amount is reversed. However, the reversed book value shall not exceed the book value before recognizing impairment loss and after deducting depreciation or amortization.

The impairment loss and reversal amount of the continuing business unit are recognized in profit or loss.

12. Collateral accepted

The accepted collateral is booked at the cost of acceptance. Also, it is valued at the end of the period at the lower of cost or fair value net of selling cost (net realizable value).

13. Property and equipment

Property and equipment are recognized at the acquisition net cost of accumulated depreciation and accumulated impairment. The aforementioned cost includes the cost of dismantling, removing, and restoring the location of the real estate and equipment and the necessary interest expense arising from the construction in progress. Depreciation is provided separately for the significant parts of the real estate and equipment. When major parts of property and equipment are subject to periodic replacement, the Group treats the parts as an individual asset and recognizes it separately with specific periods of durability

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and depreciation method. The book value of these replaced parts is derecognized in accordance with the provision of IAS 16 "Property, Plant, and Equipment". If the major repair and maintenance costs are in compliance with the recognition conditions, they are recognized as replacement costs and are recognized as part of the real estate and equipment book value. Other repair and maintenance expenses are recognized in profit or loss.

Depreciation is computed in accordance with the straight-line method over the estimated useful lives of the following assets:

Buildings and structures	3 ~60 years
Transport equipment	3 ~5 years
Other equipment	3 ~10 years

After the original recognition of the real estate and equipment or any significant parts, if it is disposed or no economic effect arising from the use or disposal is expected, it will be derecognized and recognized in profit or loss.

The residual value, years of useful life, and depreciation method of the real estate and equipment are assessed at the end of each financial year. If the expected value is different from the previous estimate, the change is considered as a change in accounting estimates.

14. Employee benefits

(1) Retirement benefits plan

The retirement method for employees of the Company and its domestic subsidiaries is applicable to all full-time employees. The employee retirement fund is fully appropriated to the Labor Pension Reserves Committee and deposited in the pension fund account. The aforementioned pension is deposited in the name of the Labor Pension Reserves Committee, which is completely separated from the Company and the domestic subsidiaries, so it is not included in the consolidated financial statements in the preceding paragraph.

For the defined contribution pension plan, the monthly pension payable rate of the Company and its domestic subsidiaries shall not be less than 6% of the employee's monthly salary, and the amount of the provision shall be recognized in the profit or loss of the current period.

For the defined contribution pension plan, an appropriation is made according to the project unit credit method and the actuarial report at the end of the annual reporting period. The re-measurement of net defined benefit liabilities (assets) includes the return on the plan asset and changes in the ceiling of the assets, deducting the net interest amount of the net defined benefit liabilities (assets) and the actuarial gains and losses. The net defined benefit liability (asset) re-measurement is included in other comprehensive income when incurred and immediately recognized in the retained

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earnings.

The prior-period service cost is the change in the present value of the defined benefit obligation arising from the revision or reduction of the pension plan and is recognized as an expense on the earlier of the following two dates:

- A. When the plan revision or reduction occurs; and
- B. When the Group recognizes the relevant restructuring costs or resignation benefits;

The net interest of the net defined benefit liability (asset) is determined by having the net defined benefit liability (assets) multiplied by the discount rate, both of which are determined at the beginning of the annual reporting period, and then consider the changes which have occurred in the net defined benefit liabilities (assets) for the period arising from the appropriation amount and benefit payment.

(2) Employees preferential deposit benefit

The Group provides preferential deposits, which include the payment of fixed preferential deposits for current employees and for retired employees (before January 1, 2010). The difference between the interest rate of these preferential deposits and the market interest rate is within the scope of employee benefits.

According to Article 28 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the excess interest arising from the retirement preferential deposit rate agreed upon with the employees over the general market interest rate shall be actuarially calculated according to the defined benefit plan as stipulated in IAS 19 that was approved by the Financial Supervisory Commission. However, the parameters of actuarial assumptions shall be handled in accordance with the provisions of the competent authority if it is available.

15. Treasury stock

When the Group obtains the shares (Treasury Stocks) of the parent company, it is recognized at the acquisition cost and is debited to the equity. The spread of treasury stock transactions is recognized in the equity.

16. Recognition of revenue

(1) Interest income from loans is estimated on an accrual basis. The overdue payment transferred to the collection account will cease to bear interest from the date of transfer and will be recognized as income upon collection. The interest income agreed to be posted as receivable due to the bail-out and the extension agreement is recognized as income upon collection.

(2) Service charge income is a fee charged for the various services provided to customers. The accounting treatment is as follows:

The accounting treatment starting from January 1, 2018 is as follows:

The service charge income of the Company and its subsidiaries is derived from the services provided at a specific point of time or for a certain period of time, or through the transaction

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services and it is recognized as income. When there is a transfer of services to the customer but without unconditional rights for collecting considerations, it is recognized as a contract asset. However, for some contracts, partial considerations are collected from the customers at the time of signing the contract, the Company and its subsidiaries must assume the obligation of providing services subsequently. Therefore, it is recognized as a contract liability.

The aforementioned contractual liabilities of the Company and its subsidiaries did not result in significant financial fluctuations.

The accounting treatment before January 1, 2018 is as follows:

Service charge income is generally recognized on the accrual basis and is recognized during the period in which the labor service is provided. The service fee earned on the execution of a major project is recognized at the time of completion, such as, the service fee received by the organizing bank of a syndicate loan. The service charge and expense associated with subsequent loan services is recognized according to the amortization over the period of service or included in the calculation of the effective interest rate of loans and receivables.

17. Share-based payment transaction

The “share-based payment” transaction cost for the equity clearing between the Group and its employees is measured at the fair value on the equity instruments vested date. Fair value is measured by the appropriate pricing model.

The “share-based payment” transaction cost for the equity clearing is recognized on a period-by-period basis during the period in which the service conditions and performance conditions are fulfilled, and the increase in equity is recognized. The cumulative fees recognized for equity clearing transactions at the end of each reporting period prior to the vesting date reflect the process of the vested period and the best estimate of the ultimate vested equity instruments by the Group. The cumulative cost changes recognized for the share-based payment transactions at the beginning and end of each reporting period are recognized in profit or loss for the period.

If the share-based payment is not in compliance with the vested conditions, no expense will be recognized. However, if the vested conditions of the equity clearing transaction are related to the market price condition or the non-vested conditions, when all the service or performance conditions have been fulfilled, the relevant expenses will be recognized regardless of whether the market price condition or the non-vested condition is fulfilled.

18. Income tax

Income tax expense (profit) refers to the aggregated amount of current income tax and deferred income tax that is included in the current profit or loss.

Income tax expenses in the current period

The current income tax liabilities (assets) related to the current and prior periods are measured at the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The current income tax related to the items recognized in other

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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comprehensive income or directly recognized in the equity is recognized in other comprehensive income or equity instead of being recognized in the profit or loss

The additional business income tax levied on the undistributed earnings is recognized as income tax expense on the date when the distribution of earnings is resolved in the shareholders meeting.

Deferred tax

The deferred income tax is calculated according to the temporary difference between the taxable amount of assets and liabilities and the book value on the balance sheet at the end of the reporting period.

All taxable temporary differences are recognized as deferred income tax liabilities except for the following two items:

- (1) The original recognition of goodwill, or the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted;
- (2) The taxable temporary difference arising from the investment in subsidiaries, associates, and joint equity. Also, the timing of reversal is controllable, and it is not likely to be reversed in the foreseeable future;

Except for the following two items, deductible temporary difference and deferred income tax assets arising from the taxable losses and income tax credit are recognized within the range of probable future taxable income:

- (1) It is related to the deductible temporary difference from the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted.
- (2) It is related to the deductible temporary differences arising from the investment in subsidiaries, associates, and the joint equity. It is recognized within the range of probable reversal in the foreseeable future and there is sufficient taxable income at the time the temporary difference occurred.

Deferred income tax assets and liabilities are measured at the tax rate of the expected asset realization or in the period in which the liability is settled. The tax rate is based on the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the tax consequences arising from the manner in which the asset is expected to be recovered or the book value of the liability is settled at the end of the reporting period. If the deferred income tax is related to items that are not included in the profit or loss, it will not be recognized in profit or loss, but recognized in other comprehensive income according to the relevant transactions or directly recognized in equity. Deferred income tax assets are re-examined and recognized at the end of each reporting period.

Deferred income tax assets and liabilities can be offset against each other legally only in the

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current period, and the deferred income tax is related to the same taxation entity and is related to the income tax levied by the same taxation authority.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

When the consolidated financial statements are prepared by the Group, the management must make judgments, estimates, and assumptions at the end of the reporting period, which will affect the disclosure of income, expenses, assets and liabilities, and contingent liabilities. However, the uncertainty of these significant assumptions and estimates may result in a significant adjustment to the book value of an asset or liability in the future period.

Estimation and assumption

The main source of information on the estimation and assumption with uncertainty at the end of the reporting period has significant risks that result in significant adjustments to the book value of assets and liabilities in the next financial year. The explanations are given as follows:

(1) Loan impairment loss

Since January 1, 2018

The Group's estimated impairment loss of loans is measured by the expected credit loss amount for a period of 12 months and for the duration of the period. The present value of the difference between the contractual cash flow (book value) receivable and the expected cash flow (assessment of forward-looking information) is the credit loss. However, the discount effect of short-term loans and receivables is insignificant. Therefore, the credit loss is measured by the undiscounted spread amount. If the actual cash flow in the future is less than expected, significant impairment losses may occur. Please refer to Note VI.

Before January 1, 2018

The Group regularly reviews the loan portfolio to assess impairment. The Group bases the recognition of impairment mainly on whether there is any observable evidence of impairment occurring. This evidence may include observable information indicating adverse changes in the debtor's payment status, or national or local economic conditions associated with debt defaults. When analyzing expected cash flows, the management makes estimates according to the loss records of the assets with similar credit risk characteristics. The Group regularly reviews the methods and assumptions of the expected cash flow amount and timing to reduce the difference between the estimated and actual losses.

(2) The fair value of financial instruments

When the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from the active market, the fair value will be determined using evaluation techniques, including the income approach (such as, cash flow discount model) or market approach. The changes in the assumptions of the said approaches will affect the fair value of the financial instruments reported. Please refer to Note XII.

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(3) Retirement benefits plan

The present value of the defined benefit cost and the defined benefit obligations depends on the actuarial valuation. Actuarial valuation involves various assumptions, including: discount rate and changes in expected salary.

(4) Income tax

The uncertainty of income tax exists in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to a wide range of international business relationships and the long-term and complexity of contracts, the differences between actual results and assumptions made, or changes in such assumptions in the future, may cause the booked income tax benefits and expenses to be adjusted in the future. The appropriation of income tax is a reasonable estimation made according to the possible audit results of the local tax authorities of the countries in which the Group operates. The amount appropriated is based on different factors, such as: previous tax audit experience and the difference in tax law interpretation between the tax entity and the tax authority. The difference in interpretation may result in a variety of issues due to the local situation of the country where an individual enterprise of the Group operates.

The carryforwards of the taxable loss and income tax credit and deductible temporary differences are recognized as deferred income tax assets within the range of probable future taxable income or taxable temporary differences. The amount of the deferred income tax assets to be recognized is estimated according to the possible timing and level of the future taxable income and taxable temporary difference, and also, the future tax planning strategy.

VI. Summary of significant accounting titles

1. Cash and cash equivalents

	<u>2018.12.31</u>	<u>2017.12.31</u>
Cash on hand	\$1,366,471	\$1,283,479
Foreign currency on hand	230,888	207,590
Notes and checks for clearing	1,565,553	1,572,749
Due to Central Bank and other banks	1,179,429	1,379,319
Total	<u>\$4,342,341</u>	<u>\$4,443,137</u>

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For the purpose of preparing the cash flow statement, cash and cash equivalents are the sum of the following items.

	2018.12.31	2017.12.31
Cash and cash equivalents on the consolidated balance sheet	\$4,342,341	\$4,443,137
The "Due from the Central Bank and call loans to banks" that meet the definitions of IAS 7 "Definition of Cash and cash equivalents" approved by the FSC	8,530,162	9,513,467
The "Bonds and securities sold under re-purchase agreements" comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	624,167	2,565,772
Cash and cash equivalents on the Consolidated Statement of Cash Flow	<u>\$13,496,670</u>	<u>\$16,522,376</u>

2. Due from Central Bank and lend to Banks

	2018.12.31	2017.12.31
Reserve for deposits –demand account	\$2,939,644	\$3,833,087
Reserve for deposits –checking account	5,314,596	5,021,676
Reserve for deposits –Foreign currency	17,518	17,013
Call loans to banks	5,573,000	5,663,367
Total	<u>\$13,844,758</u>	<u>\$14,535,143</u>

The deposit reserve is calculated according to the monthly legal reserve appropriated for each type of deposit by law, the average daily amount and legal reserve ratio for the current period. Also, it is deposited with the Central Bank. Type A deposit reserve accounts and foreign currency depositor accounts do not bear interest and can be accessed at any time. Type B accounts bear interest, but they cannot be used except in compliance with the regulations.

3. Financial assets at fair value through profit and loss

	2018.12.31	2017.12.31 (Notes)
Mandatorily measured at fair value through profit or loss:		
Stock	\$4,584,529	
Equity securities	2,368,012	
Domestic bond	24,111,160	
Derivatives	39,017	
Convertible corporate bonds	323,902	
Real estate investment trust fund	360,177	
Total	<u>\$31,786,797</u>	

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	2018.12.31 (Notes)	2017.12.31
Held-for-trade:		
Stock		\$3,201,462
Equity securities		450,010
Domestic bond		17,603,936
Derivatives		22,191
Subtotal		<u>21,277,599</u>
Financial assets measured at fair value through profit or loss at the time of original recognition		
Convertible corporate bonds		329,256
Total		<u><u>\$21,606,855</u></u>

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note VIII for details of the financial assets provided as collateral that the Group has them measured at fair value through profit or loss.

4. Financial assets at fair value through other comprehensive profit or loss

	2018.12.31	2017.12.31 (Notes)
Debt instrument investments measured at fair value through other comprehensive income:		
Bonds	\$15,622,987	
Corporate bond	33,660,910	
Financial bonds	4,264,717	
Subtotal (total book value)	<u>53,548,614</u>	
Evaluation adjustment	(952,250)	
Subtotal	<u>52,596,364</u>	
Equity instrument investments measured at fair value through other comprehensive income:		
Listed stocks	93,960	
Non-TWSE/GTSM-listing companies stock	797,032	
Subtotal	<u>890,992</u>	
Total	<u><u>\$53,487,356</u></u>	

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

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Please refer to Note VIII for details of the financial assets provided as collateral that the Group has them measured at fair value through other comprehensive income.

Please refer to Note VI for information on allowance for loss for the debt instrument investments measured at fair value through other comprehensive income. Also, please refer to Note XIV for information related to credit risk.

For the Group's investment in financial assets and equity instruments that was measured at fair value through other comprehensive income, dividend income for an amount of NT\$33,744 thousand was recognized in the period from January 1 to December 31, 2018, which was entirely related to the investments still held on the balance sheet date.

The Group's investment in financial assets and equity measured at fair value through other comprehensive income was disposed in the period from January 1 to December 31, 2018, the fair value at the time of disposition was NT\$698,266 thousand. Also, the accumulated unrealized loss in valuation at the time of disposal for an amount of NT\$7,860 thousand was transferred from other equity to retained earnings.

5. Financial assets based on cost after amortization

	2018.12.31	2017.12.31 (Notes)
Convertible certificate of deposit (total book value)	\$17,600,000	
Less: Allowance for losses	(2,004)	
Total	<u>\$17,597,996</u>	

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The Group classifies certain financial assets into financial assets measured at amortized cost. Please refer to Note VI for the information provided on allowances for loss. Also, refer to Note XIV for information related to credit risk and it is not provided as collateral.

6. Bonds and securities sold under repurchase agreements

	2018.12.31	2017.12.31
Bonds	<u>\$624,167</u>	<u>\$2,565,772</u>

The Group's RS bill and bond transactions were for an amount of NT\$624,260 thousand and NT\$2,566,077 thousand on December 31, 2018 and 2017, respectively.

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7. Receivable- net

	2018.12.31	2017.12.31
Accounts receivable and notes	\$2,652,762	\$1,752,148
Interests receivable	1,038,824	972,483
Other receivables	21,681	20,755
Subtotal (total book value)	3,713,267	2,745,386
Less: Allowance for losses	(70,851)	(75,968)
Net	<u>\$3,642,416</u>	<u>\$2,669,418</u>

The Group has adopted IFRS 9 “Financial Instruments” since January 1, 2018 to assess impairments. Please refer to Note XIV for details of the allowance for loss in current year. International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” was adopted before January 1, 2018 to assess impairments. As of December 31, 2017, the changes in the bad debt appropriated for the impairment of receivables is analyzed as follows:

	2017
Balance, beginning	<u>\$49,750</u>
Amount appropriated for the current period	33,700
Write-off amount	(18,256)
Recovery of write-off amount	10,774
Balance, ending	<u>\$75,968</u>

8. Discounts and loans, net

	2018.12.31	2017.12.31
Overdraft	\$74,653	\$58,592
Loans	154,496,563	145,098,609
Collections of overdue loans	25,759	28,395
Total amount	154,596,975	145,185,596
Less: allowance for bad debt	(2,367,223)	(2,237,731)
Net	<u>\$152,229,752</u>	<u>\$142,947,865</u>

(1) Please refer to Note XIV for the assessment of the Group's impairment of discounts, loans, and receivables in the period from January 1 to December 31, 2018.

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- (2) The Group has adopted IFRS 9 “Financial Instruments” since January 1, 2018 to assess impairments. Please refer to Note XIV for details of the allowance for loss in current year. IAS 39 “Financial Instruments: Recognition and Measurement” was adopted before January 1, 2018 to assess impairments. As of December 31, 2017, the changes in the discount and allowance for bad debt of the Group is as follows (please refer to Note XIV for the credit risk disclosure in details):

	2017
Balance, beginning	\$2,020,314
Amount appropriated (reversed) for the period	612,378
Write-off amount	(598,502)
Recovery of write-off amount	209,483
Foreign exchange impact amount	(5,942)
Balance, ending	<u>\$2,237,731</u>

9. Available-for-Sale Financial Assets

	2018.12.31 (Notes)	2017.12.31
Stock		\$1,789,907
Bonds		20,001,161
Corporate bond		31,417,157
Equity securities		19,601
Beneficiary certificate		321,154
Financial bonds		5,529,512
Total		<u>59,078,492</u>
Less: accumulated impairment		-
Net		<u>\$59,078,492</u>

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note VIII for the available-for-sale financial assets classified according to IAS 39 before January 1, 2018 that were provided as collateral by the Group.

10. Held-to-maturity financial assets

	2018.12.31 (Notes)	2017.12.31
Convertible certificate of deposit		<u>\$17,600,000</u>

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The Group classified certain financial assets into held-to-maturity financial assets, which was not provided as collateral in accordance with IAS 39 before January 1, 2018.

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11. Other financial assets – net

	2018.12.31	2017.12.31
Equity investment measured at cost	\$-(Notes)	\$327,313
Non-delinquent loans restated from loans	3,968	-
Others	2,037	1,356
Subtotal (total book value)	6,005	328,669
Less: Allowance for losses	(1,300)	-
Total	<u>\$4,705</u>	<u>\$328,669</u>

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The aforementioned unlisted (non-OTC) stock investment held by the Group was subject to the provisions of IAS 39 before January 1, 2018. Since the reasonable range of its fair value is significant and the probability of each estimate cannot be reasonably evaluated, it cannot be measured at fair value, but at the cost.

The Group's financial assets measured at cost are not provided as collateral.

IAS 39 "Financial Instruments: Recognition and Measurement" was adopted before January 1, 2018 to assess impairments. As of December 31, 2017, the changes in the allowance for bad debt for the collections transferred from non-loans of the Group is as follows:

	2017
Balance, beginning	\$-
Amount appropriated (reversed) for the period	4,886
Write-off bad debts	(4,886)
Balance, ending	<u>\$-</u>

12. Liability instrument investments for which no active market exists

	2018.12.31	2017.12.31
	(Notes)	
Corporate bond		<u>\$1,980,968</u>

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The Group classified certain financial assets into debt instrument investment without an available market price in accordance with IAS 39 before January 1, 2018. Please refer to Note VIII for its being provided as collateral.

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13. Property and equipment

	Land	Buildings and structures	Transport equipment	Other equipment	Uncompleted construction	Total
Cost:						
2018.01.01	\$2,015,003	\$1,191,501	\$18,940	\$149,174	\$6,907	\$3,381,525
Additions	-	1,273	-	28,815	14,667	44,755
Disposition	-	(39,837)	-	(13,457)	-	(53,294)
Other changes	-	16,798	-	-	(16,798)	-
2018.12.31	\$2,015,003	\$1,169,735	\$18,940	\$164,532	\$4,776	\$3,372,986
2017.01.01	\$2,017,140	\$1,266,887	\$18,150	\$132,388	\$160	\$3,434,725
Additions	-	6,794	6,893	22,188	6,747	42,622
Disposition	(13,346)	(84,063)	(6,103)	(5,402)	-	(108,914)
Other changes	11,209	1,883	-	-	-	13,092
2017.12.31	\$2,015,003	\$1,191,501	\$18,940	\$149,174	\$6,907	\$3,381,525
Depreciation and impairment:						
2018.01.01	\$11,209	\$859,657	\$10,087	\$106,682	\$-	\$987,635
Depreciation	-	20,670	3,049	26,251	-	49,970
Disposition	-	(39,836)	-	(13,289)	-	(53,125)
Other changes	-	(417)	-	-	-	(417)
2018.12.31	\$11,209	\$840,074	\$13,136	\$119,644	\$-	\$984,063
2017.01.01	\$-	\$875,640	\$12,497	\$84,858	\$-	\$972,995
Depreciation	-	20,414	3,540	27,168	-	51,122
Impairment	-	15,213	-	-	-	15,213
Disposition	-	(53,493)	(5,950)	(5,344)	-	(64,787)
Other changes	11,209	1,883	-	-	-	13,092
2017.12.31	\$11,209	\$859,657	\$10,087	\$106,682	\$-	\$987,635
Net book value:						
2018.12.31	\$2,003,794	\$329,661	\$5,804	\$44,888	\$4,776	\$2,388,923
2017.12.31	\$2,003,794	\$331,844	\$8,853	\$42,492	\$6,907	\$2,393,890

The Group did not provide property and equipment as collateral.

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14. Other assets – net

	2018.12.31	2017.12.31
Prepayments	\$9,446	\$18,006
Inter-bank clearing fund	602,655	609,829
Refundable deposits	235,310	99,514
Others	31,170	23,685
Net	<u>\$878,581</u>	<u>\$751,034</u>

As of December 31, 2018 and 2017, the other asset – other accumulated impairment amounted to NT\$20,280 thousand.

15. Due to Central Bank and other banks

	2018.12.31	2017.12.31
Deposits of other banks	\$71	\$196
Call loans to banks	19,937,180	22,269,232
Total	<u>\$19,937,251</u>	<u>\$22,269,428</u>

16. Funds borrowed from Central Bank and other banks

	2018.12.31	2017.12.31
Funds borrowed from banks	<u>\$3,438,640</u>	<u>\$5,315,680</u>

17. Financial liabilities at fair value through profit and loss

	2018.12.31	2017.12.31
Available-for-sale financial liabilities:		
Derivatives	<u>\$25,784</u>	<u>\$127,902</u>

18. Bills and bonds sold under repurchase agreements

	2018.12.31	2017.12.31
Bonds	\$8,579,875	\$6,419,000
Corporate bond	19,992,978	13,411,373
Bank debentures	743,643	1,529,432
Total	<u>\$29,316,496</u>	<u>\$21,359,805</u>

The Group's RP bill and bond transactions were for an amount of NT\$29,388,277 thousand and NT\$21,391,946 thousand on December 31, 2018 and 2017, respectively.

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19. Payables

	2018.12.31	2017.12.31
Accrued expenses	\$ 266,629	\$368,102
Interest payable	155,423	128,546
Notes and checks in clearing	1,565,553	1,572,749
Clearing amount payable	-	51,566
Others	324,276	310,848
Total	<u>\$2,311,881</u>	<u>\$2,431,811</u>

20. Deposits and remittances

	2018.12.31	2017.12.31
Check deposits	\$2,334,521	\$2,383,496
Current deposits	35,480,317	29,249,015
Time deposits	24,444,454	23,805,876
Savings deposit	126,173,193	124,944,505
Remittances	439	5,509
Total	<u>\$188,432,924</u>	<u>\$180,388,401</u>

21. Other financial liabilities

	Interest rate interval (%)	2018.12.31	2017.12.31
Chang Hwa Bank	1.04%~1.19%	\$500,000	\$400,000
International Bills	1.49%~1.54%	140,000	120,000
Taiwan Cooperative Bills Finance Corporation	1.40%	120,000	80,000
Grand Bills Finance Corporation	1.31%~1.44%	120,000	50,000
Taiwan Finance Cooperation	1.40%	100,000	70,000
China Bills Finance Corporation	1.44%~1.48%	100,000	50,000
Mega Bills	1.48%~1.5%	100,000	80,000
Ta Ching Bills Finance Corporation	1.4%~1.44%	50,000	50,000
Total		<u>\$1,230,000</u>	<u>\$900,000</u>

22. Liability reserve

	2018.12.31	2017.12.31
Retirement benefits plan	\$292,615	\$327,226
Reserve for guarantee liability	105,994	146,533
Provision for commitment of financing	21,818	-
Total	<u>\$420,427</u>	<u>\$473,759</u>

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The changes in the guarantee reserve are as follows:

	2018	2017
Balance – beginning (in accordance with IAS 39)	\$146,533	\$126,960
Adjustments to retained earnings - beginning	-	-
Balance – beginning (in accordance with IFRS 9)	146,533	126,960
Amount appropriated (reversed) for the period	(40,562)	19,620
Foreign exchange impact amount	23	(47)
Balance, ending	<u>\$105,994</u>	<u>\$146,533</u>

The changes in the financing commitment reserve are as follows:

	2018	2017 (Note)
Balance – beginning (in accordance with IAS 39)	\$-	
Adjustments to retained earnings - beginning	33,318	
Balance – beginning (in accordance with IFRS 9)	33,318	
Amount appropriated (reversed) for the period	(11,500)	
Foreign exchange impact amount	-	
Balance, ending	<u>\$21,818</u>	

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

23. Retirement benefits plan

Defined contribution pension plan

The Group has the employee retirement plan stipulated in accordance with the “Labor Pension Act”, which is a defined contribution plan. According to the Labor Pension Act, the monthly pension contribution rate of the Group shall not be less than 6% of the employee’s monthly salary. The Group has an amount equivalent to 6% of the employee’s monthly salary appropriated every month to the personal pension account with the Bureau of Labor Insurance.

The Group had recognized the insurance expense of the defined contribution plan for an amount of NT\$31,855 thousand and NT\$31,281 thousand in 2018 and 2017, respectively.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

Defined benefit plan

The employee pension plan stipulated by the Group according to the Labor Standards Act is a defined benefit plan. The employee's pension payment is based on the service points and the average monthly salary at the time of retirement. Two service points for each service year within the first 15 service years (inclusive) and one service point for each service year after the 15th service year with a maximum of 45 service points for each employee. The Group levied a pension fund on the total monthly salary every month according to the Labor Standards Law. The pension appropriation ratio has been changed from 8% to 15% since March 2012, and the fund is deposited in the designated account with the Company of Taiwan in the name of the Labor Pension Reserves Committee. In addition, the Group estimates the aforementioned labor retirement reserve account balance before the end of each year. If the balance is insufficient to pay the pension amount calculated in accordance with the aforementioned retirement conditions for the employees qualified for retirement in the next year, the amount of difference will be appropriated in a lump sum before the end of March in the next year.

The Ministry of Labor conducts asset allocation in accordance with the "Regulations for Revenues, Expenditures, Safeguarding, and Utilization of the Labor Retirement Fund". Fund investment is arranged with a self-operated and entrusted management method, which adopts a mid-term and long-term investment strategy with an active and passive management. Considering the risks of the market, credit, liquidity, etc., the Ministry of Labor sets the fund risk limit and control plan so that it can be flexible enough to achieve the target remuneration without bearing excessive risk. For the use of the fund, the minimum income of its annual settlement shall not be lower than the income calculated according to the local bank's two-year time deposit. If there is any deficiency, it shall be replenished by the state treasury upon approval by the competent authority. As the Group is not entitled to participate in the operation and management of the fund, it is not possible to disclose the classification of the fair value of the plan assets in accordance with paragraph 142 of IAS 19. As of December 31, 2018, the Group's defined benefit plan is expected to have an amount of NT\$ 39,018 thousand appropriated in the next year.

As of December 31, 2018 and 2017, the Group's defined benefit plans are expected to mature in 2027 and 2026.

The cost of the defined benefit plan recognized in profit or loss is summarized as follows:

	2018	2017
Current service cost	\$2,055	\$2,916
Net interest of the net defined benefit liabilities	5,269	7,092
Expected return on plan assets	(2,191)	(2,791)
Total	<u>\$5,133</u>	<u>\$7,217</u>

The adjustments made to the present value of the defined benefit obligation and the fair value of the plan assets are as follows:

	2018.12.31	2017.12.31
Determined benefit obligation	\$541,147	\$557,055
The fair value of plan assets	(248,532)	(229,829)
Liability reserve - Net defined benefit liabilities amount booked	<u>\$292,615</u>	<u>\$327,226</u>

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Adjustments of net defined benefit liabilities (assets):

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit liabilities (assets)
2017.01.01	\$579,034	\$(214,229)	\$364,805
Current service cost	2,916	-	2,916
Interest expenses (income)	7,092	(2,791)	4,301
Subtotal	589,042	(217,020)	372,022
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	7,451	-	7,451
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(79)	(79)
Subtotal	7,451	(79)	7,372
Payment of benefits	(39,438)	30,161	(9,277)
Contributions of employer	-	(42,891)	(42,891)
2017.12.31	\$557,055	\$(229,829)	\$327,226
Current service cost	2,055	-	2,055
Interest expenses (income)	5,269	(2,191)	3,078
Subtotal	564,379	(232,020)	332,359
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	15,837	-	15,837
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(6,887)	(6,887)
Subtotal	15,837	(6,887)	8,950
Payment of benefits	(39,069)	31,299	(7,770)
Contributions of employer	-	(40,924)	(40,924)
2018.12.31	\$541,147	\$(248,532)	\$292,615

The following key assumptions are used to determine the Company's defined benefit plan:

	2018.12.31	2017.12.31
Discounted rate	1.000%	1.000%
Expected salary increase rate	2.000%	2.000%

Sensitivity analysis of each major actuarial hypothesis:

	2018		2017	
	Increase of defined benefit obligations	Decrease of defined benefit obligations	Increase of defined benefit obligations	Decrease of defined benefit obligations
Discount rate increased by 0.25%	\$-	\$(7,459)	\$-	\$(8,553)
Discount rate decreased by 0.25%	7,707	-	8,844	-
Expected salary increase by 0.5%	15,641	-	17,953	-
Expected salary decrease by 0.5%	-	(14,804)	-	(16,968)

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The foregoing sensitivity analysis is conducted to analyze the possible impact on the defined benefit obligations when single actuarial assumption (e.g., discount rate or expected salary) has a reasonable and possible change occurring, assuming other assumptions remain unchanged. Since some of the actuarial assumptions are correlated, the occurrence of changes in one single actuarial assumption is seldom in practice, so the analysis has its limitations.

The methods and assumptions used in the sensitivity analysis for this period are no different from those adopted in the previous period.

24. Other liabilities

	2018.12.31	2017.12.31
Deposits received	\$41,540	\$56,728
Advance income	264,973	256,477
Others	26,006	21,057
Total	<u>\$332,519</u>	<u>\$334,262</u>

25. Equity

(1) Common stock

As of December 31, 2018 and 2017, the Company's authorized capital stock was NT\$30,000,000 thousand, respectively, and the paid-in capital was NT\$11,512,343 thousand, NT\$10 par, divided into 1,151,234 thousand shares. Each share is entitled to one voting right and the right to receive dividends.

(2) Capital surplus

	2018.12.31	2017.12.31
Common stock premium	\$54,455	\$54,455
Treasury stock transactions	42,544	5,282
Others	2,586	2,586
Total	<u>\$99,585</u>	<u>\$62,323</u>

The various capital reserve balances on December 31, 2018 and 2017 are adjusted as follows:

	Common stock premium	Treasury stock transactions	Stock option	Others	Total
Balance as of January 1, 2018	\$54,455	\$5,282	\$-	\$2,586	\$62,323
Share-based payment transaction	-	-	37,262	-	37,262
Transfer of Treasury Stock	-	37,262	(37,262)	-	-
Deregistration of treasury shares	-	-	-	-	-
Balance as of December 31, 2018	<u>\$54,455</u>	<u>\$42,544</u>	<u>\$-</u>	<u>\$2,586</u>	<u>\$99,585</u>

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

	Common stock premium	Treasury stock transactions	Stock option	Others	Total
Balance as of January 1, 2017	\$54,455	\$5,282	\$-	\$2,586	\$62,323
Share-based payment transaction	-	-	-	-	-
Transfer of Treasury Stock	-	-	-	-	-
Deregistration of treasury shares	-	-	-	-	-
Balance as of December 31, 2017	\$54,455	\$5,282	\$-	\$2,586	\$62,323

According to the law, additional paid-in capital shall not be used for any purpose except for making up for the loss of the Company. When the Company has no loss, a certain percentage of the additional paid-in capital from the stock premium and the gift can be applied to replenish capital every year. The aforementioned additional paid-in capital can be allocated in cash to shareholders proportionally to their original shareholding ratio.

(3) Treasury stock

a. Changes in Treasury Stocks are as follows:

January 1 to December 31, 2018:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	5,000 thousand shares	-
Maintain corporate credit and shareholders' equity	-	10,000 thousand shares	-	10,000 thousand shares
Total	5,000 thousand shares	10,000 thousand shares	5,000 thousand shares	10,000 thousand shares

January 1 to December 31, 2017:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	-	5,000 thousand shares
Maintain corporate credit and shareholders' equity	-	-	-	-
Total	5,000 thousand shares	-	-	5,000 thousand shares

b. As of December 31, 2018 and 2017, the amount of Treasury Stocks that are not yet canceled or distributed to employees was NT\$314,865 thousand and NT\$129,640 thousand, respectively, which was for 10,000 thousand shares and 5,000 thousand shares, respectively.

c. The Company transferred treasury stock to employees for 914 thousand shares and 4,086 thousand shares on March 16, 2018 and July 19, 2018.

d. The treasury stocks held by the Company shall not be pledged, nor shall they be

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entitled to the distribution of dividends and voting rights according to the Securities Exchange Act.

(4) Earnings allocation and dividend policy

According to the Articles of Association of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:

- A. Withholding taxes
- B. Making up for the loss
- C. Appropriate 30% as the legal reserve
- D. Making appropriation according to other provisions of the law or the order of the competent authority, or reversing the special reserves
- E. The Board of Directors shall use the dividend policy to prepare an earnings distribution plan according to the remaining amount and present it in the shareholders meeting for resolutions.

The principle of dividend distribution of the Company is based on the business operation needs of the Company and the revision of major laws and regulations. The Board of Directors presents the proposal in the Shareholders Meeting for resolutions with the ratio of the cash dividend moderately adjusted, which shall not be less than 1% of the total dividends. If the cash dividend per share is less than NT\$0.1, it will not be distributed.

According to the Banking Act, the legal reserve should be appropriated until the total amount is equivalent to the total capital. Before the legal reserve is equivalent to the total capital, the maximum distribution of a cash dividend shall not exceed 15% of the total capital. The legal reserve can be used to make up for the loss. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be applied to have stock shares or cash distributed to shareholders proportionally to their original shareholding ratio.

According to the provisions of the Securities Exchange Act, when the competent authorities consider it necessary, it may request the listed companies to have a certain percentage of special reserve appropriated in addition to appropriating the legal reserve lawfully at the time of distributing earnings.

After adopting IFRSs, when the Company adopted IFRSs for the first-time according to the FSC. Fa.Zi No. 1010012865 Letter issued by the Financial Supervisory Commission on July 6, 2012, for the booked unrealized revaluation increments and the cumulative conversion adjustment benefits are transferred to the retained earnings due to the adoption of IFRS 1 "First-time Adoption of International Financial Reporting Standards Data" exemption on the conversion date, a special reserve for the same amount is appropriated. After having the financial report prepared in accordance with IFRSs, when the distributable earnings are distributed, an additional special reserve is appropriated for an amount equivalent to the difference between the balance of the special reserve appropriated at the first-time adoption of IFRSs and the net debit of other equity. If the amount debited to the other shareholders' equity is reversed subsequently, the reversed amount can be distributed.

As of January 1, 2018 and 2017, the special reserve at the first-time adoption amounted

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to \$45,549 thousand. In addition, the Company did not use, dispose of, or reclassify the relevant assets in the period from January 1 – December 31, 2018 and 2017 that caused having the special reserve reversed to the undistributed earnings. As of December 31, 2018 and 2017, the special reserve for the first time was NT\$45,549 thousand.

The 2018 and 2017 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on February 25, 2019 and the shareholders meeting on May 17, 2018 as follows:

	Distribution of retained earnings		Dividends per share (\$)	
	2018	2017	2018	2017
Legal reserve	\$863,340	\$1,683,160		
Special reserve	437,551	28,053		
Common stock cash dividends	1,711,852	1,720,722	\$1.5	\$1.5
Total	<u>\$3,012,743</u>	<u>\$3,431,935</u>		

Please refer to Note VI. 30 for the relevant information on the estimation basis and recognition amount of the employee compensation and the remuneration to directors and supervisors.

26. Net interest income

	2018	2017
<u>Interest revenue</u>		
Discount and loan interest income	\$4,289,864	\$3,662,664
Due from bank and interbank offered interest income	46,157	155,740
Security investment interest income	2,372,807	2,307,987
Other interest incomes	164,138	105,857
Subtotal	<u>6,872,966</u>	<u>6,232,248</u>
<u>Interest expenses</u>		
Deposits Interest expenses	(984,107)	(963,336)
Central Bank and interbank interest expense	(419,504)	(235,812)
Interest expense of the RP bonds	(451,828)	(232,434)
Others	(34)	(196)
Subtotal	<u>(1,855,473)</u>	<u>(1,431,778)</u>
Total	<u>\$5,017,493</u>	<u>\$4,800,470</u>

27. Service Fee, Net

	2018	2017
Service fee income	\$1,889,836	\$1,814,047
Service fee expenses	(46,833)	(41,967)
Total	<u>\$1,843,003</u>	<u>\$1,772,080</u>

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28. Gain (loss) on financial assets and liabilities at fair value through profit and loss

	2018	2017
Stock investment	\$(572,438)	\$650,403
Bond investment	385,140	421,449
Derivatives	(60,793)	(59,612)
Others	41,675	591
Total	<u>\$(206,416)</u>	<u>\$1,012,831</u>

29. The reversed benefit of asset impairment and bad debts, commitments, and guarantee reserve

	2018	2017
Financial assets at fair value through other comprehensive profit or loss	\$58,560	(Notes)
Financial assets based on cost after amortization	132	(Notes)
Fixed assets	417	(15,213)
Available-for-sale financial assets – bond investment	(Notes)	145,717
Subtotal	<u>59,109</u>	<u>130,504</u>
Loan and receivables bad debt (appropriation)	(1,695,174)	(650,964)
Guarantee reserve reversed (appropriation)	40,562	(19,620)
Financing commitment reserve reversed (appropriation)	11,500	(Notes)
Subtotal	<u>(1,643,112)</u>	<u>(670,584)</u>
Total	<u>\$(1,584,003)</u>	<u>\$(540,080)</u>

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note XIV for credit risk related information.

30. Operating expenses

The employee benefits, depreciation, and amortization expenses is summarized by function as follows:

	2018	2017
Employee benefits expenses		
Salaries and wages	\$789,506	\$841,831
Labor insurance and national health insurance	65,400	64,431
Pension expenses	36,988	38,498
Other employee benefits expenses	40,551	36,797
Depreciation	49,970	51,122
Total	<u>\$982,415</u>	<u>\$1,032,679</u>

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According to the Articles of Association, if the Group has earnings for the year, no less than 0.01% of the earnings should be appropriated to pay employees' compensation and no more than 2% of the earnings should be appropriated as remuneration to directors and supervisors. However, when there are accumulated losses, an equivalent amount should be appropriated to make up for losses. The remuneration to employees is paid with stock dividend or cash; also, it must be with the consent of the majority of the presenting directors in the Board meeting that is with two thirds of the directors attended; also, the resolution should be reported in the shareholders' meeting. Please refer to the "Market Observation Post System" of the Taiwan Stock Exchange for information on employee compensation and remuneration to directors and supervisors resolved by the Board of Directors.

On January 1 to December 31, 2018 and 2017, according to the profit generated, an amount equivalent to 0.01% of the earnings was appropriated for the employee's remuneration, NT\$360 thousand and NT\$640 thousand, respectively, which was listed in the "salary expense" account.

The Group's Board of Directors had resolved on February 25, 2019 to have the 2018 employees' compensation and the remuneration to directors and supervisors distributed for an amount of NT\$360 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2018 financial report.

The Group's Board of Directors had resolved on February 26, 2018 to have the 2017 employees' compensation and the remuneration to directors and supervisors distributed for an amount of NT\$640 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2017 financial report.

There is no significant difference between the actual employees' compensation and remuneration to directors and supervisors distributed in 2018 and the expenses booked in the 2017 financial report.

31. Other comprehensive income

The other comprehensive income on January 1 to December 31, 2018 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive profit or loss	Income tax benefit (expense)	After-tax amount
Titles not reclassified as profit and loss accounts:					
Evaluation of the capital gain/loss from equity instrument at fair value through comprehensive income statement as other comprehensive income	\$(71,940)	\$-	\$(71,940)	\$-	\$(71,940)
Defined benefit plan re-measurement amount	(8,950)	-	(8,950)	8,632	(318)
Accounts to be reclassified to profit or loss subsequently:					
Exchange differences from the translation of financial statements of foreign operations	64,596	-	64,596	(12,048)	52,548
Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income	(3,303,829)	20,004	(3,283,825)	-	(3,283,825)
Total	<u>\$(3,320,123)</u>	<u>\$20,004</u>	<u>\$(3,300,119)</u>	<u>\$(3,416)</u>	<u>\$(3,303,535)</u>

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The other comprehensive income on January 1 to December 31, 2017 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensiv e profit or loss	Income tax benefit (expense)	After-tax amount
Titles not reclassified as profit and loss accounts:					
Defined benefit plan re-measurement amount	\$(7,372)	\$-	\$(7,372)	\$1,254	\$(6,118)
Accounts to be reclassified to profit or loss subsequently:					
Exchange differences from the translation of financial statements of foreign operations	(32,956)	-	(32,956)	5,603	(27,353)
Unrealized valuation gains and losses of available-for-sale financial assets	1,260,464	(957,791)	302,673	-	302,673
Total	<u>\$1,220,136</u>	<u>\$(957,791)</u>	<u>\$262,345</u>	<u>\$6,857</u>	<u>\$269,202</u>

The Group's debt instrument investment measured at fair value through other comprehensive income in the period from January 1 to December 31, 2018 is reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NT\$20,004 thousand.

32. Income tax

According to the amended provisions of the Income Tax Law promulgated on February 7, 2018, the income tax rate of the profit-making enterprise applicable from the year of 2018 was changed from 17% to 20%, and the additional business tax rate for undistributed earnings was decreased from 10% to 5%.

The main composition of income tax expenses (benefit) is as follows:

Income tax recognized in profit or loss

	2018	2017
Current income tax expenses (benefit):		
Payable income tax for the current period	\$695,827	\$883,658
The income tax of the previous years adjusted in the current period	(8,753)	(3,114)
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	62,963	(37,680)
The tax losses, income tax credit, or temporary differences that were not recognized in previous years are recognized in the current year.	(5,994)	7,185
Deferred income tax related to changes in tax rates or new taxation	(48,533)	-
Income tax expenses	<u>\$695,510</u>	<u>\$850,049</u>

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Income tax recognized in the other comprehensive profit or loss

	2018	2017
Deferred income tax expense (benefit):		
Exchange differences from the translation of financial statements of foreign operations	\$12,048	\$ (5,603)
Defined benefit plan actuarial (loss)	(8,632)	(1,254)
The other comprehensive profit or loss related income tax	<u>\$3,416</u>	<u>\$(6,857)</u>

The amount of income tax expense and accounting profit multiplied by the applicable income tax rate is adjusted as follows:

	2018	2017
Net income before tax of the continuing business units	<u>\$3,573,311</u>	<u>\$6,460,583</u>
Tax amount calculated according to the domestic tax rate applicable to the income of the country concerned	\$714,662	\$1,098,299
Income tax effect of the tax-free income	(362,593)	(628,611)
Income tax effect of non-deductible expenses on tax returns	323	9,069
Income tax effect of deferred income tax assets/liabilities	(9,063)	(27,886)
Basic tax adjustment	143,686	243,859
Additional 10% income tax on the undistributed earnings	217,248	158,433
The income tax of the previous years adjusted in the current period	(8,753)	(3,114)
Total income tax expense recognized in profit or loss	<u>\$695,510</u>	<u>\$850,049</u>

Deferred income tax assets (liabilities) balances related to the following items:

January 1 to December 31, 2018

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$17,967	\$(20,618)	\$-	\$(2,651)
Allowance for bad debt	142,681	15,885	-	158,566
Impairment of Assets	22,336	898	-	23,234
Employees' leave benefits liabilities	6,174	(448)	-	5,726
Compensation payable	7,250	2,026	-	9,276
Reserve for guarantee liability	17,736	(6,447)	-	11,289
Net determined benefit liability- non-current	55,895	(5,691)	8,632	58,836
Investment profit or loss recognized according to the Equity Method	35	(35)	-	-
Conversion difference of the financial statements of foreign institutions	4,944	-	(12,048)	(7,104)
Deferred income tax benefit (expense)		<u>\$(14,430)</u>	<u>\$(3,416)</u>	
Net deferred income tax assets	<u>\$275,018</u>			<u>\$257,172</u>

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	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	\$275,018			\$266,927
Deferred tax liabilities	-			9,755
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$50,135</u>			<u>\$59,890</u>

January 1 to December 31, 2017

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$(4,688)	\$22,655	\$-	\$17,967
Allowance for bad debt	131,132	11,549	-	142,681
Impairment of Assets	19,750	2,586	-	22,336
Employees' leave benefits liabilities	3,163	3,011	-	6,174
Compensation payable	6,727	523	-	7,250
Reserve for guarantee liability	12,774	4,962	-	17,736
Net determined benefit liability-non-current	62,282	(7,641)	1,254	55,895
Investment profit or loss recognized according to the Equity Method	-	35	-	35
Conversion difference of the financial statements of foreign institutions	(659)	-	5,603	4,944
Deferred income tax benefit (expense)		<u>\$37,680</u>	<u>\$6,857</u>	
Net deferred income tax assets	<u>\$230,481</u>			<u>\$275,018</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$235,828</u>			<u>\$275,018</u>
Deferred tax liabilities	5,347			-
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$55,482</u>			<u>\$50,135</u>

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Income tax declaration and audit

As of December 31, 2018, the income tax returns of the Company and its subsidiaries were audited as follows:

	<u>Income tax declaration and audit</u>
The Company	Audited up to the year of 2016
Subsidiary - Tainan Life Insurance Agent Co., Ltd.	Audited up to the year of 2016
Subsidiary – Fu Chen Property Insurance Agent Co., Ltd.	Audited up to the year of 2016
Subsidiary - KTB International Leasing Co., Ltd.	Audited up to the year of 2016
Sub-subsubsidiary - KTB International Real Estate Management Co., Ltd.	Audited up to the year of 2016

33. Earnings per share

The basic earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period.

The diluted earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period plus the weighted average number of common stock shares to be issued when all dilutive potential common stock shares were converted into common stock shares.

	<u>2018</u>	<u>2017</u>
(1) Basic earnings per share		
Net income attributable to the holders of common stock of the parent company (NT\$ Thousands)	<u>\$2,877,801</u>	<u>\$5,610,534</u>
Weighted average number of common stock shares (Thousand shares) of the earnings per share	<u>1,147,757</u>	<u>1,146,234</u>
Base earnings per share (\$)	<u>\$2.51</u>	<u>\$4.89</u>
(2) Diluted earnings per share		
Net income attributable to the holders of common stock of the parent company (NT\$ Thousands)	<u>\$2,877,801</u>	<u>\$5,610,534</u>
Weighted average number of common stock shares (Thousand shares) of the earnings per share	<u>1,147,757</u>	<u>1,146,234</u>
Dilution effect	<u>-</u>	<u>-</u>
Weighted average number of common stock shares (Thousand shares) after adjusting the dilution effect	<u>1,147,757</u>	<u>1,146,234</u>
Diluted earnings per share (NT\$)	<u>\$2.51</u>	<u>\$4.89</u>

There was no other transaction performed to cause significant changes to the outstanding common stock shares or the potential common stock shares after the reporting period and before the release of the financial statements.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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VII. Related party transactions

1. Names of related parties and their relationship with the company

Name	Relationship with the Group
Chen-Chih Tai	Chairman of the Group
Chiung-Ting Tsai	Vice Chairman of the Group
Shih-Chu Chien	President of the Group (2017.9.26 retired)
Jih-Cheng Chang	President of the Group (2017.9.26 took office)
Tian Gang Investment Co., Ltd	Director of the Group
Ming-Tai Chen	Independent Director of the Group
Yi Chiu	Independent Director of the Group (2017.5.17 retired)
Tsai- Feng Hou	Independent Director of the Group (2017.5.17 retired)
Chih-Chien Hsu	Independent Director of the Group (2018.5.16 resigned)
Chao-Long Chen	Independent Director of the Group (2017.5.17 took office)
Hung-Liang Chiang	Independent Director of the Group (2018.11.2 took office)
Others	Representatives of the Group's managers, incorporated directors and supervisors, and their second cousins and substantive stakeholders

2. Significant transactions with related parties

(1) Deposit and loan

Account titles	Amount	% of the account balance
<u>2018.12.31</u>		
Deposits	\$234,256	0.12%
Loans	33,496	0.02%
<u>2017.12.31</u>		
Deposits	\$1,472,698	0.82%
Loans	47,474	0.03%

For the deposit interest rate between the Group and its related parties, except for when the Company clerk's savings deposit amount within the prescribed limit has interest calculated according to a preferential deposit interest rate, the amount exceeding the threshold and the deposit interest rate of the other related party are same as the interest rate of the general customers.

(2) Lease

The rental expenses paid to the related party for the lease of the office on January 1 to December 31, 2018 and 2017 were NT\$3,840 thousand and NT\$5,995 thousand, respectively.

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(3) Loans

December 31, 2018

Type	Number of accounts or name of stakeholder	Maximum balance – current period	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	8	\$4,586	\$4,413	\$4,413	\$-	None	None
Residential mortgage loans	4	23,503	23,308	23,308	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

December 31, 2017

Type	Number of accounts or name of stakeholder	Maximum balance – current period	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	8	\$4,838	\$4,660	\$4,660	\$-	None	None
Dwelling house Mortgage loan	7	37,813	37,514	37,514	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	Chou OO	3,000	3,000	3,000	-	Real estate	None
Other loans	Wu OO	1,200	1,200	1,200	-	Real estate	None

(4) Guaranteed amount: None

(5) Derivative financial instrument transactions: None

(6) Sale of non-performing loan: None

(7) Remuneration of directors and key management personnel of the Group

	2018	2017
Short-term employee benefits	\$42,455	\$48,778
Retirement benefits	1,763	1,896
Total	<u>\$44,218</u>	<u>\$50,674</u>

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VIII. Pledged assets

The Group has the following assets provided as collateral:

Item	Book value		Guaranteed debt
	2018.12.31	2017.12.31	
Financial assets at fair value through profit and loss	\$6,737,446	\$3,326,990	RP transaction
Financial assets at fair value through profit and loss	11,203	(Notes)	Various business reserves and collateral
Financial assets at fair value through other comprehensive profit or loss	2,056,191	(Notes)	Various business reserves and collateral
Financial assets at fair value through other comprehensive profit or loss	25,914,862	(Notes)	RP transaction
Financial assets at fair value through other comprehensive profit or loss	8,689,407	(Notes)	Funds borrowed from banks
Available-for-sale financial assets – bonds	(Notes)	2,031,188	Various business reserves and collateral
Available-for-sale financial assets – bonds	(Notes)	19,563,775	RP transaction
Available-for-sale financial assets – bonds	(Notes)	9,257,097	Funds borrowed from banks
Liability instrument investments for which no active market exists	(Notes)	722,240	RP transaction
Liability instrument investments for which no active market exists	(Notes)	361,555	Funds borrowed from banks
Total	<u>\$43,409,109</u>	<u>\$35,262,845</u>	

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

IX. Significant contingent liabilities and unrecognized contractual commitments

(1) The Group has the following or various trust agents and guarantees:

	2018.12.31	2017.12.31
Receivable and collection	\$10,780,490	\$11,054,245
Receivable guarantees	5,092,739	4,100,022
Receivables from L/C	33,177	89,563
Trust and custody	27,652,280	14,799,230
Agreed financing amount	17,201,151	25,627,607

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

(2) According to the irrevocable operating lease contract, the total future minimum lease payments on December 31, 2018 and 2017 are as follows:

	2018.12.31	2017.12.31
No more than one year	\$78,068	\$71,574
Over 1 year but less than 5 years	188,529	162,426
Over 5 years	25,562	41,689
Total	<u>\$292,159</u>	<u>\$275,689</u>

X. Contents and amount of trust business handled in accordance with the provisions of the Trust Enterprise Act

The Group provides the trust balance sheet, income statement, and property list to the Trust Department in accordance with Article 17 of the Trust Enterprise Act Enforcement Rules as follows:

Balance Sheet of Trust Accounts

Trust assets	2018.12.31	2017.12.31	Trust liabilities	2018.12.31	2017.12.31
Bank deposits	\$3,687,960	\$459,559	Payables	\$49,179	\$-
Stock	384,111	87,000	Other liabilities	1,769	-
Fund	10,414,291	10,913,450	Trust capital	27,583,648	14,732,407
Real estate	12,380,141	2,683,822	Reserve		
Other assets			And	(44,316)	4,823
	723,777	593,399	accumulated		
			earnings		
Total trust assets	<u>\$27,590,280</u>	<u>\$14,737,230</u>	Total trust liabilities	<u>\$27,590,280</u>	<u>\$14,737,230</u>

Income Statement of Trust Accounts

Item	2018	2017
Amount		
Interest revenue	\$751	\$393
Rent revenue	11,994	4,430
Subtotal	<u>12,745</u>	<u>4,823</u>
Trust expenses		
Sales expense	35,376	-
Appraisal expense	6,612	-
Remuneration expense	8,418	-
Other Expenses	6,655	-
Subtotal	<u>57,061</u>	<u>-</u>
Net income before tax (net loss)	(44,316)	4,823
Income tax expenses	-	-
Net income (net loss)	<u>(44,316)</u>	<u>\$4,823</u>

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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Property Catalogue of Trust Accounts

Investment	2018.12.31	2017.12.31
Bank deposits	\$3,687,960	\$459,559
Stock	384,111	87,000
Fund	10,414,291	10,913,450
Real estate		
Land	8,953,760	2,401,672
Buildings and structures	3,150,231	282,150
Construction in progress	276,150	-
Others	723,777	593,399
Total	\$27,590,280	\$14,737,230

XI. Significant disaster loss

No such event

XII. Significant subsequent events

No such event

XIII. Fair value and grade information of financial instruments

1. Information on the fair value of financial instruments

Financial assets:

	2018.12.31	
	Book value	Fair value
Financial assets measured at fair value through profit or loss		
Mandatorily measured at fair value through profit or loss (Note)	\$31,786,797	\$31,786,797
Financial assets at fair value through other comprehensive profit or loss (Note)	53,487,356	53,487,356
Financial assets based on cost after amortization (Note):		
Investment of debt instruments on the basis of cost after amortization	17,597,996	17,597,996
Cash and cash equivalents (excluding cash on hand)	2,744,982	2,744,982
Due from Central Bank and lend to Banks	13,844,758	13,844,758
Bonds and securities sold under repurchase agreements	624,167	624,167
Accounts receivable	3,642,416	3,642,416
Discounts and loans	152,229,752	152,229,752
Other financial assets	4,705	4,705

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

	2017.12.31	
	Book value	Fair value
Financial assets measured at fair value through profit or loss		
Held for transaction purposes (Note)	\$21,277,599	\$21,277,599
Financial assets designated to be measured at fair value through profit or loss at the time of original recognition (Note)	329,256	329,256
Available-for-sale financial assets (including financial assets measured at cost) (Note)	59,405,805	59,405,805
Loans and accounts receivable (Note):		
Cash and cash equivalents (excluding cash on hand)	2,952,068	2,952,068
Due from Central Bank and lend to Banks	14,535,143	14,535,143
Bonds and securities sold under repurchase agreements	2,565,772	2,565,772
Accounts receivable	2,669,418	2,669,418
Discounts and loans	142,947,865	142,947,865
Other financial assets	1,356	1,356
Liability instrument investments for which no active market exists	1,980,968	2,057,821

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Financial liabilities:

	2018.12.31		2017.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities based on cost after amortization:				
Due to Central Bank and other banks	\$19,937,251	\$19,937,251	\$22,269,428	\$22,269,428
Funds borrowed from Central Bank and other banks	3,438,640	3,438,640	5,315,680	5,315,680
Bills and bonds sold under repurchase agreements	29,316,496	29,316,496	21,359,805	21,359,805
Payables	2,311,881	2,311,881	2,431,811	2,431,811
Customer deposits and remittances	188,432,924	188,432,924	180,388,401	180,388,401
Financial liabilities at fair value through profit and loss:				
Held for transaction purposes	25,784	25,784	127,902	127,902

The derivative financial instrument transactions are detailed as follows:

Item	Contract amount	Fair value
2018.12.31		
Foreign exchange contracts	\$4,176,667	\$13,233
2017.12.31		
Foreign exchange contracts	3,417,704	(105,711)

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2. Methods and assumptions used in the fair value of financial instruments

Fair value is the price that would be collected for the assets sold or price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. The methods and assumptions used by the Group to measure or disclose the fair value of financial assets and financial liabilities are as follows:

- (1) The fair value of short-term financial products is estimated according to the book value on the balance sheet. Because the maturity date of such products is very close or the current collection price is equal to the book value, so the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits with the Central Bank and inter-bank lending, resell (RS) bill and bond investments, receivables, deposits of the Central Bank and interbank, financing of the Central Bank and interbank, RP bill and bond liabilities, payables, deposits and remittances, and other financial liabilities.
- (2) For financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, available-for-sale financial assets, and held-to-maturity financial assets, if there is a public market price available, such market price is the fair value, which refers to the closing price on the balance sheet date for the listed (OTC) equity security with a market price available, the net asset value on the balance sheet date for the fund, the closing price or reference price on the balance sheet date for the bond, and the settlement price or the counterparty's quote for the derivative financial products. If no market price is available for reference, the evaluation method is used for estimation. When the Group adopts the market price including the purchase price and the selling price, the Group will evaluate the selling (purchasing) position at the market buying (selling) price. If there is no market price available at the time of evaluation but there is the most recent market transaction price available, then the said transaction price is the fair value of such financial asset.
- (3) Discounts, loans, and deposits are all interest-bearing financial assets and liabilities, so their book value is similar to the current fair value. The book value of the collection is the estimated recovery amount net of the allowance for bad debt. Therefore, the book value is the fair value.
- (4) For debt-based instruments that are without an available market price, the fair value is determined by the counterparty's quotation or valuation technology. The determination of valuation technology is based on the discounted cash flow analysis. The assumptions of interest rate and discount rate are mainly based on information related to similar instruments (for example, Taipei Exchange reference yield curve, the Reuters commercial promissory interest rate average quotation, and credit risk information).
- (5) The fair value of derivatives (including forward foreign exchange and foreign exchange transactions) is the amount that the Group is expected to obtain or must pay if it terminates the contract at the agreed reporting date. The Group calculates the fair value of the position held with the parameters or quotation information disclosed by the Reuters Information System.
- (6) The fair value of the equity instruments (e.g.: private company's stock shares) that do not have a market price available is estimated with the market approach, which is with the fair value estimated with the price generated in market transactions of the same or comparable company's equity instruments and other relevant information (e.g. lack of

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liquidity discount factor, the profit ratio of the similar company's stock, and the input value of the similar company's stock price book ratio).

Please refer to Note XIII. 3 for the information on the fair value bracket of the Group's financial instruments.

3. Fair value hierarchy

(1) The definition of the Group's three-level fair value

① Level I

Refers to the public offer (unadjusted) of the same financial instrument available in the market on the measurement date. The fair value of the listed stocks, beneficiary certificates, corporate bonds, financial bonds, convertible corporate bonds, and derivatives with a market price available invested in by the Group is classified as Level I.

② Level II

It refers to the observable prices other than the quote in an active market, including the observable input parameters directly (as prices) or indirectly (e.g. derived from prices) acquired from an active market. It includes the convertible corporate bonds, Taiwan Central Government bonds, and general derivatives invested by the Group.

③ Level III

It means that the input parameters for measuring fair value are not based on information available from the market or by the quotations provided by the counterparty. It includes the unlisted stocks invested by the Group.

For assets and liabilities that are recognized in the financial statements on a repetitive basis, the classification is re-evaluated at the end of each reporting period to determine whether there is a transfer between the fair value levels.

(2) Information on the fair value measurement levels:

The Group does not have non-repetitive assets measured at fair value. The information on the fair value level of repetitive assets and liabilities is shown below.

2018.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$4,584,529	\$4,584,529	\$-	\$-
Bond investment	24,435,062	301,361	24,133,701	-
Derivatives	39,017	-	39,017	-
Others	2,728,189	2,728,189	-	-
Financial assets at fair value through other comprehensive profit or loss				
Stock investment	890,992	93,960	-	797,032
Bond investment	52,596,364	36,881,446	15,714,918	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Derivatives	25,784	-	25,784	-

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2017.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$3,201,462	\$3,201,462	\$-	\$-
Bond investment	17,933,192	300,635	17,632,557	-
Foreign exchange contracts	22,191	-	22,191	-
Others	450,010	450,010	-	-
Available-for-Sale Financial Assets				
Stock investment	1,789,907	1,789,907	-	-
Bond investment	56,947,830	36,946,669	20,001,161	-
Others	340,755	340,755	-	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Foreign exchange contracts	127,902	-	127,902	-

(3) Transfer between Level I and Level II fair value

In the period of January 1 – December 31, 2018 and 2017, the Group's assets and liabilities measured at the Group's repetitive fair value was not transferred between Level I and Level II fair value.

(4) Changes in Repetitive Fair Value Level III Statement

If the assets measured with the Group's repetitive fair value that are classified as Level III fair value, the adjustment of the beginning balance and the ending balance is as follows:

	<u>Financial assets measured at fair value through other comprehensive income - stocks</u>
2018.1.1 (in accordance with IAS 39)	\$327,343
Adjustment amount - beginning	476,200
2018.1.1 (in accordance with IFRS 9)	<u>803,543</u>
Total benefits recognized in 2018:	
Recognized in other comprehensive income (reported in "Unrealized valuation gains and losses from equity instrument investments measured at fair value through other comprehensive income")	(6,511)
2018.12.31	<u><u>\$797,032</u></u>

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Significant unobservable input value information of Level III fair value

For the Group's assets measured at Level III repetitive fair value, the significant unobservable input values for fair value measurement are as follows:

	Valuation technique	Significant unobservable input value	Range	Relationship between input value and fair value
Financial assets at fair value through other comprehensive profit or loss				
Stock	Market Approach	Lack of liquidity discount rate	20%~30%	The higher the lack of liquidity, the lower the estimated fair value

Evaluation process for Level III fair value

The financial instrument evaluation team of the Group's Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.

(5) Not measured at fair value but must disclose fair value level information

Assets with only fair value disclosed:	Level I	Level II	Level III	Total
<u>2018.12.31</u>				
Investment of debt instruments on the basis of cost after amortization				
Convertible certificate of deposit	\$17,597,996	\$-	\$-	\$17,597,996
<u>2017.12.31</u>				
Held-to-maturity financial assets				
Convertible certificate of deposit	\$17,600,000	\$-	\$-	\$17,600,000
Liability instrument investments for which no active market exists				
Bonds	-	2,057,821	-	2,057,821

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4. Transfer of financial assets

Transferred financial assets not being removed in all

In the daily trading activities of the Group, for the transferred financial assets that did not meet the overall de-recognizing conditions, most of them are RP debt securities as collateral held by the counterparty of the transaction. Such transactions are essentially secured borrowings and reflect the Group's liabilities from repurchasing the obligation of the transferred financial assets at a fixed price in the future. For such transactions, the Group is unable to use, sell, or pledge the transferred financial assets during the effective period of the transaction, but the Group still bears the interest rate risk and credit risk. Therefore, it has not been derecognized entirely.

The table below shows the financial assets not qualified under all conditions and related financial liabilities:

December 31, 2018					
Category of financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value position
Financial assets at fair value through profit and loss R/P agreement	\$6,737,446	\$7,429,000	\$6,737,446	\$7,429,000	\$(691,554)
Financial assets at fair value through other comprehensive profit or loss R/P agreement	25,914,862	21,887,496	25,914,862	21,887,496	4,027,366

XIV. Financial risk management

1. Overview

The Group uses the business growth scale to establish a capital adequacy assessment process that meets the risk profile in order to maintain adequate capital. Also, it considers the overall risk exposure, implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks involved in the businesses on and off the balance sheet, such as, credit risk, market risk, operational risk, liquidity risk, country risk, interest rate risk in the banking book, etc., are included in the risk management scope. Policies and methods are stipulated according to different risks, such as, "Credit Policy", "Rules Governing Credit Review and Authorization", "Rules Governing Risks", etc. Stipulate management guidelines according to the needs of the policies and methods, such as, stipulating "Regulations Governing Credit Risk", "Regulations Governing Market Risk", and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks" that are reviewed and approved by the Board of Directors in order to effectively identify, measure, communicate, and monitor various risks.

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2. Risk management organizational structure

The risk management of the Group is carried out by the Risk Management Department in accordance with the risk management policy approved by the Board of Directors. The Risk Management Department works closely with business units to identify, assess, and prevent risks. The Board of Directors has a written policy for risk management that covers specific risk exposure, such as, interest rate risk, credit risk, etc. In addition, the Audit Office regularly (at least once a year) and occasionally reviews the risk management and operating procedures of the Group to ensure that the Group's risk management mechanism can be operated effectively. Also, the audit records related to various risks, such as transaction records, statements, and valuations are kept for the review of the Audit Office.

(1) Risk Management Committee

For the purpose of upgrading the risk management mechanism, improving various risks management, avoiding all possible adverse effects on the Group, and seeking maximized profits with limited risks, the Risk Management Committee is established with the President acting as the Chief Commissioner. Also, the department head of the Treasury Department, Digital Service and Channel Management Department, Risk Management Department, Credit Management Department, Administration Department, International Banking Department, Compliance Department, and the Strategic Planning Department and other personnel designated by the President act as the Members of the Committee. The chief auditor may attend the Committee meeting, but may not vote. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Add and amend the Group's risk management policy.
- ② Coordinate the risk management issues of the Company, such as, credit risk, market risk, and operational risk.
- ③ Review the ratio of the Group's regulatory capital to risk assets (referred to as "capital adequacy ratio")
- ④ Handle and review the major risk exposure and unauthorized events which occur.
- ⑤ Major issues or discussions related to risk management proposed by each unit
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

The "Risk Management Department" is the execution unit of the Risk Management Committee and the risk management planning and management unit of the Company. It independently monitors and manages the risks of the Company. The department head of the Risk Management Department acts as the Executive Secretary who is appointed by the Board of Directors. The Risk Management Department is responsible for calculating and monitoring the capital adequacy, and comprehensively handles the risk management and reports to the competent authorities in accordance with various risks management guidelines. Submits a risk control report to the Committee on a quarterly basis and forwards it to the Board of Directors. Also, the Committee sets rules to control various investment positions and transaction quotas, and handles transaction clearing and settlement, such as, bank-wide fund scheduling and securities trading.

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(2) Asset and Liability Management Committee

The President of the Group is the Chief Commissioner of the Group's Asset and Liability Management Committee. The members are composed of the personnel designated by the President and the department head of the Digital Service and Channel Management Department, the Risk Management Department, the Treasury Department, and the Administration Department. In response to the domestic and foreign financial situation, they are responsible for adjusting the business strategy in a timely manner, maintaining liquidity, safety, and profitability, and holding regular meetings at least once a month. The main tasks are as follows:

- ① Assess the impact of changes in domestic and foreign political and economic situations and the trend of government policies on financial business operations.
- ② Predict the impact of domestic and foreign funds, exchange rates, interest rate trends, and other relevant financial indicators on the Group's business operations.
- ③ Assess the Group's operating performance, capital position, asset and liability risk position, and interest rate sensitivity, as well as study and adjust the best ratio of various assets and liabilities.
- ④ Assess the Group's pricing strategy for deposit and loan interest rates.
- ⑤ Estimate the Group's future operating performance and moderately adjust the Group's business strategy.
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman.

(3) Credit Assessment Committee

The Credit Assessment Committee is chaired by the President and consists of the head of the Credit Management Department, the Risk Management Department, and the Digital Service and Channel Management Department, and the personnel designated by the President to strengthen the review and risk control of the credit business and to ensure the Group's credits. In principle, a meeting will be held once a week to review the credit cases to be granted by the Board of Directors, and the results of the review will be presented to the Board of Directors for approval. The process and transfer of the proposals will be handled by the Credit Management Department.

(4) Investment Management Committee

In order to respond to changes in domestic and foreign financial situations, timely adjust investment strategies and control investment risks to maintain the safety and profitability of the Group's investment positions. The "Investment Management Committee" is established as the highest management unit responsible for the Group's investment business. The Investment Management Committee is chaired by the President, and the members include the head of the Treasury Department and other personnel appointed by the President. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Set the Company's investment strategies and principles according to the changes in domestic and foreign political and economic situations and the trend of government policies.
- ② Assess whether the performance of the investment portfolio meets the expected objectives, predict the impact of changes in domestic and foreign capital situation, exchange rate, interest rate, and other relevant financial indicators on the investment position of the Group, and study whether the investment strategy

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should be adjusted.

- ③ Review the proportion, allocation, and reinvestment-orientation of various financial investment projects.
- ④ Review the source of funds and cost structure of the investment.

(5) Information Security Management Committee

The "Information Security Management Committee" is formed to improve the information security management system, respond to all information security-related laws and regulations, and comply with the relevant government regulations in order to reduce the risk impact and influence on the Group due to information security. The Committee has one convener appointed who is the President or an individual appointed by the GM. The members are the head of the Risk Management Department, the Information Technology Department, the Digital Service and Channel Management Department, the Compliance Department, and the department head or the designated individual of the department designated by the convener. The Audit Department may attend the Committee meeting, but may not vote. The Committee will hold meetings from time to time as needed. The main tasks are as follows:

- ① Propose the information security policy of the Group.
- ② Promote the information security management system.
- ③ Assess the infrastructure of the information security management system.
- ④ Handle and review major information security incidents.
- ⑤ Major issues or discussions related to information security proposed by each unit
- ⑥ Discussion of other information security issues.

3. Credit Risk

(1) Source and definition of credit risk

Credit risk refers to the risk of default loss caused by the borrower or counterparty due to the deterioration of the company's business condition or other factors (such as, disputes between the company and its counterparty), resulting in the borrower or counterparty not fulfilling its contractual obligations. The sources of credit risk covered on and off balance sheet items. For the Group's credit risk exposure, the items on the balance sheet mainly come from discounts and loans, deposits and interbank lending, debt instrument investments and derivative financial instruments... etc. The off-balance sheet items are mainly guarantees, letters of credit, loan commitments, etc.

(2) Credit risk management policies:

The Group's written credit risk management strategy is prepared as a guideline for the credit operating procedure. Also, the relevant policies and operational guidelines are set up to ensure that the strategy can be implemented continuously and effectively in order to maintain rigorous loan granting standards, monitor credit risk, assess possible business opportunities, and identify and manage non-performing loans. The scope of management includes: ① Various credit risks (including individual credit cases, overall credit check, credit business, non-performing loans, etc.) and credit risk offset instruments, such as, collateral and guarantee, of the businesses on and off the balance sheet. ② A credit risk-related product or position

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

of the banking book or transaction book

In order to maintain a safe and sound credit business and control credit risk, the "Regulations Governing Credit Risk" are stipulated to establish a credit risk control mechanism when planning various businesses in order to implement the procedures of identification, measurement, communication, and monitoring. Under the credit management organization structure with decentralization of responsibility planned, each responsible unit is to review and discuss the cases within the authorization in accordance with the "Rules Governing Credit Review and Authorization" in order to ensure the quality of the credit assets. The "Directions for Credit Review and Implementation" are formulated. Also, the Credit Review Department at the head office is responsible for handling and strengthening post-loan management in order to effectively control credit risk.

The credit risk management procedures and measurement methods for each major business of the Group are described below:

① Credit business (including loan commitments and guarantees)

The classification of credit assets and credit quality rating are described as follows:

A. Credit asset classification

The Group's credit assets are classified into five categories. Except that the normal credit assets are classified as Category I, the non-performing credit assets are evaluated according to the loan guarantee status and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful", and Category V "Loss". The Group has formulated the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" to establish the internal processing systems and procedures for asset quality assessment, appropriation of loss reserve, collection of overdue loans, and liquidation of bad debts. Also, it is handled in accordance with the requirements of the competent authorities and the Group. In order to speed up the liquidation of non-performing loans and reduce overdue loans, the Group has the "Rules Governing Non-Performing Loans" formulated to realize a sound financial structure and to enhance asset and liability management.

B. Credit quality rating

The Group has formulated the "Corporate Finance and Consumer Finance Business Classification" according to the business characteristics and scales. The directions for credit rating are formulated for corporate account holders and individual account holders. The credit rating scores of the debtors are classified into 10 grades (C1~C10), which is an internal credit rating and it is used for risk management. The credit rating is used as criteria for credit approval and as reference in determining credit conditions, and those with a poor credit rating are subject to higher credit review frequency.

② Deposit and inter-bank lending

The Group evaluates the credit status of the counterparty before the transaction

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initiated. Also, it determines the ratio of loans in New Taiwan Dollars and foreign currency according to the domestic and foreign financial inter-bank credit rating before the end of each year, and submits it to the Credit Review Committee for review and reports it to the Board of Directors for approval.

③ Debt instrument investment and derivative financial instruments

The Group's credit risk management of debt instrument is to identify credit risk through the credit rating of debt instrument by domestic and international credit rating agencies, bond guarantee institutions, country risks, and counterparty risk. For the financial institutions that initiate investments in the Group's derivative financial product transactions, set the ceiling of the financial transaction amount by the nature of the counterparty and the credit rating in accordance with the "Regulations Governing Derivatives Transactions Quota".

(3) Credit risk hedge or mitigation policy

① Collateral

The Group adopts the methods of stipulating credit limit conditions, collection of collateral, and the guarantor or the transfer of the credit guarantee fund to reduce the credit risk for credit business in order to strengthen the credit of the Group. The Rules Governing Collateral Appraisal and related procedural guidelines and regulations for regulating acceptable types of collateral and the valuation, management, and disposal of collateral have been formulated to ensure credit. It also has a credit guarantee, a collateral clause, and an offset clause formulated. It clearly defines that upon the occurrence of a credit event, the credit amount can be reduced, the borrowing repayment period can be shortened or deemed as fully expired, and the various deposits of the debtors with the Group are applied to offset the liabilities in order to reduce credit risk.

For the verification of collateral appraisal and the collateral check on a regular or irregular basis, verify the credit and collateral revaluation according to the status quo of the debtors, and assess the degree of guarantee provided by the debtors and the legal effect of the guarantor in order to ensure the protection of credit.

② Credit risk limit and credit risk concentration control

The Group has the "Credit Policy" formulated to properly plan and control the credits of the same natural person, the same legal person, the same public enterprise, the same related party, the same associate, and the same group. Set the ceiling (the same public enterprise shall not exceed the net value of the Group, and the ceiling of the same group enterprise shall be adjusted and approved according to its credit rating and prospect) of the ratio to the net value of the Group for each entity in order to control the single credit risk and improve the efficiency of fund utilization. For the ratio of total credit balance of the same industry to the total credit balance of the Group, the ceiling will be approved according to the industry and the overall economy and by referring to the non-performing loan ratio of the industry and future economy. In order to strengthen the credit risk control of each industry overseas and in Mainland China, the respective limit is stipulated accordingly. For the ratio of the total credit balance secured by residential real estate to the total credit balance of the Group, it

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is divided into the categories of housing repair and working capital limit control by the intended use of funds. Also, the credit-orientation is dynamically adjusted to hedge the overall risk and to avoid excessive credit risk concentrations.

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

③ Master net cash clearing

The Group's transactions are usually cleared on a gross amount. Also, an agreement is reached with some counterparties for a net clearing method, or all transactions with the counterparty are terminated with a net amount clearing arranged in the event of default in order to further reduce the credit risk.

(4) Maximum credit risk exposure

The maximum credit risk exposure of the assets stated in the consolidated balance sheet without the consideration of collaterals or other reinforced credit instruments approximate their book value. The maximum credit risk exposure amount (excluding collateral or other credit enhancement instruments, and irrevocable maximum risk exposure amount) associated with off-balance sheet items is as follows:

Off-balance sheet items	Credit risk maximum risk exposure amount	
	2018.12.31	2017.12.31
Customer's developed and irrevocable loan commitments	\$17,201,151	\$25,627,607
Customer's outstanding letters of credit amount	668,933	561,932
Guarantee payments	5,092,739	4,100,022
Total	22,962,823	30,289,561

(5) The financial information of the collateral, total net cash clearing amount, and other credit enhanced finance effect related to the book value of the maximum credit risk exposure on and off the consolidated balance sheet is illustrated as follows.

December 31, 2018	Collateral	Master net cash clearing	Total
<u>Items on the statement</u>			
Discounts and loans	\$102,787,532	\$-	\$102,787,532
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	10,067,432	-	10,067,432
Customer's outstanding letters of credit amount	203,359	-	203,359
Guarantee payments	1,843,473	-	1,843,473
Total	<u>\$114,901,796</u>	<u>\$-</u>	<u>\$114,901,796</u>

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December 31, 2017	Collateral	Master net cash clearing	Total
<u>Items on the statement</u>			
Discounts and loans	\$104,974,207	\$-	\$104,974,207
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	20,635,499	-	20,635,499
Customer's outstanding letters of credit amount	509,441	-	509,441
Guarantee payments	2,583,101	-	2,583,101
Total	<u>\$128,702,248</u>	<u>\$-</u>	<u>\$128,702,248</u>

The Group's management assesses and believes that the credit risk exposure amount of the off-balance sheet items could be controlled and minimized continuously because the Company and its subsidiaries have adopted a more stringent selection process during the credit approval and subsequent periodic review.

(6) Status of credit risk concentration

When a financial instrument counterparty is significantly concentrated on one person, or a financial instrument has several counterparties who are mostly engaging in similar business activities and have similar economic characteristics, so that their ability to perform contracts is affected by economic or other conditions in a similar manner, there is a significant concentration of credit risk.

The Group's credit risk concentration is derived from assets, liabilities, or off-balance sheet items, which are generated through transactions (regardless of products or services) performance or implementation, or a combination of cross-category risk exposure, including credit, deposit and inter-bank lending, marketable securities investments, receivables, and derivatives. The Group did not significantly concentrate on trading with single customers or single transaction counterparties. The total transaction amount with single customers or single transaction counterparties accounting for the Group's discounts and loans and collection amount is insignificant. The Group has the credit risk of the discount, loans, and collections illustrated by the industry, region, and collateral as follows:

①By industry

By industry	2018.12.31		2017.12.31	
	Amount	%	Amount	%
I. Private Enterprise	\$121,205,378	79	\$112,255,126	77
II. Government agencies	-	-	-	-
III. Non-profit groups	177,347	-	181,114	-
IV. Private	33,214,250	21	32,749,356	23
V. Financial institution	-	-	-	-
Total	\$154,596,975	100	\$145,185,596	100

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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② By region

The Group's main business is conducted in Taiwan and there is no significant concentration of credit risk by region.

③ By collateral

By collateral	2018.12.31		2017.12.31	
	Amount	%	Amount	%
Non-secured	\$51,809,444	34	\$40,211,389	28
Secured				
- Financial collateral	14,351,793	9	18,638,770	13
- Real estate	78,741,042	51	68,426,162	47
- Guarantee	1,963,499	1	1,483,894	1
- Other collaterals	7,731,197	5	16,425,381	11
Total	\$154,596,975	100	\$145,185,596	100

(7) Analysis of credit quality and overdue impairment of the Group's financial assets

Certain financial assets held by the Group, such as, cash and cash equivalents, deposits with the Central Bank and interbank lending, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, RS bill and bond investments, refundable deposits, and business bond and fund clearing and settlement, are concluded without low credit risk by the Group since the counterparties all have good credit ratings. In addition to the aforementioned, the credit quality of the other financial assets is analyzed as follows:

Credit quality analysis of discount and loan and receivables:

2018.12.31: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

2017.12.31	Not-overdue impaired-free position amount				Overdue non-impaired position amount	Impaired position amount	Total	Appropriated impairment amount		Net
	High	Medium	Low	Subtotal				With individual objective evidence of impairment	Without individual objective evidence of impairment	
Accounts receivable										
Credit card	\$-	\$-	\$-	\$-	\$-	\$1,379	\$1,379	\$913	\$-	\$466
Others	2,697,855	31,269	161	2,729,285	-	14,722	2,744,007	9,382	65,673	2,668,952
Discounts and loans	97,026,532	47,645,111	3,824	144,675,467	-	510,129	145,185,596	214,097	2,023,634	142,947,865
Other financial assets	1,356	-	-	1,356	-	-	1,356	-	-	1,356

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(In Thousands of New Taiwan Dollars, unless otherwise specified)

Credit quality analysis of securities investment:

2018.12.31: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

2017.12.31	Not-overdue impaired-free position amount				Overdue non-impaired position amount	Impaired position amount	Total	Appropriated loss amount	Net
	High	Medium	Low	Subtotal					
Available-for-Sale Financial Assets									
Equity investment	\$1,789,907	\$-	\$-	\$1,789,907	\$-	\$-	\$1,789,907	\$-	\$1,789,907
Bond investment	20,001,161	36,203,823	742,846	56,947,830	-	-	56,947,830	-	56,947,830
Others	340,755	-	-	340,755	-	-	340,755	-	340,755
Liability instrument investments for which no active market exists									
Bond investment	-	1,980,968	-	1,980,968	-	-	1,980,968	-	1,980,968
Other financial assets									
Equity investment	327,313	-	-	327,313	-	-	327,313	-	327,313

(8) Analysis of the Group's financial assets that is overdue but without impairment

The Group had no financial assets that were overdue without impairment as of December 31, 2018 and 2017.

(9) Judgment of the Group's credit risk that has increased significantly since the original recognition

Credit business

The Group assesses the change in the risk of default in the expected duration of each type of credit asset on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Group considers the information that evidences the significant and reasonable increase of credit risk (including forward-looking information) since the original recognition. The main considerations include:

① Quantitative indicators:

If the contract is overdue for more than 30 days on the reporting date, it is concluded that the credit risk has increased significantly since the original recognition.

② Qualitative indicators

Observe the following information on the reporting date. If the following conditions are met, it is concluded that the credit risk has increased significantly since the original recognition.

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- a. The records of bounced checks of the debtors reported by the Company
- b. The dishonored accounts announced by Taiwan Clearing House
- c. A specific performance is implemented by other banks against the collateral of the debtors held by the Company
- d. Acknowledged the debts of the debtors with reorganization requested by other financial institution when implementing the post-loan management procedures of review, tracking, and assessment.
- e. Listed as a collection or debited to bad debts
- f. Acknowledged that the public certified accountants had issued an opinion on the financial statements of the debtors with a concern over the continuing operation of the audited debtors when implementing the post-loan management procedures of review, tracking, and assessment.
- g. Acknowledged other non-performing loans of the debtors.

The Group's various types of credit assets are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

Debt instruments

The Group assesses the change in the risk of default in the expected duration of each type of debt instrument on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Group considers the changes in credit rating that indicates the main evaluation indicator is a quantitative indicator since the original recognition. When the credit rating on each reporting date is lower to an extent than the credit rating on the original recognition date, it is determined that the credit risk has increased significantly since the original recognition.

The Group's various types of debt instrument are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

(10) Definition of the Group's default and credit impairment financial assets

Credit business

The Group's definition of default on various types of credit assets is the same as the default and credit impairment of each type of credit assets. If one or more of the following conditions are met, the Group determines that the various types of credit assets have been defaulted with credit impairment resulted:

① Quantitative indicators

If the contract is overdue for more than 90 days on the reporting date, it is concluded that default and credit impairment have occurred.

② Qualitative indicators:

Observe the following information on the reporting date. If the objective evidence of impairment (such as agreement, bail-out, rehabilitated, etc.) is met, it is determined that default and credit impairment have occurred.

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Debt instruments

The Group's definition of default on a debt instrument is the same as the credit impairment of a debt instrument. If one or more of the following conditions are met, the Group determines that the debt instrument has defaulted with credit impairment.

① Quantitative indicators

If the credit rating on each reporting date reaches the default level, it is determined as defaulted with credit impairment.

② Qualitative indicators

Observe the following information on the reporting date. If the following conditions are met, it is determined that default and credit impairment have occurred.

- a. An event of default occurred.
- b. The issuer's significant financial difficulties.
- c. The issuer is likely to apply for bankruptcy or other financial restructuring.

The foregoing definition of default and credit impairment is applicable to all financial assets held by the Group and is consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model.

If the financial assets on the reporting date no longer meet the definition of default and credit impairment, they are concluded to be in the status of performance and are no longer regarded as financial assets that have defaulted with credit impairment.

(11) Write-off policy

When the Group cannot reasonably expect the financial assets to be recovered entirely or partially, it will write off the whole or part of the financial assets in a timely manner in accordance with the requirements of the competent authorities and in line with the Company's asset quality policy.

(12) Measurement of anticipated credit loss

For the purpose of assessing expected credit losses, the Group classifies financial assets into the following combinations according to the credit asset/debt instrument categories, credit ratings, and subject matter claim order:

Credit asset/debt instrument category	Definition
Corporate banking loan	Grouped by risk characteristics, company size, and credit category
Consumer banking loan	Grouped by product category, loan type, etc.
Corporate bonds and financial bonds	Classified by long-term issuer rating (Moody's) and subject matter claim order
Government bonds and Central Bank's convertible certificate of deposit	Classified by sovereign rating (Moody's) and subject matter claim order

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For the financial instruments that have not significantly increased in credit risk (Stage 1) after the original recognition, the Group measures the allowance for loss of the financial instrument according to the expected credit loss amount within 12 months. For the financial instruments with significant increase in credit risk after the original recognition (Stage 2) or with credit impairment (Stage 3), it is measured by the expected credit loss amount of the duration.

In order to measure the expected credit losses, the Group while considering the probability of default (PD) of the borrower/issuer in the next 12 months and the duration includes the loss given default (LGD) and has it multiplied by the exposure at default (EAD), taking into account the impact of the time value of money to calculate the expected credit losses for 12 months and the duration. However, for the off-balance sheet credit assets, it must be multiplied by the credit conversion factor (CCF) that is regulated with the "standardized approach" of Basel II.

The probability of default (PD) and loss given default (LGD) used in the impairment assessment of the Group's credit business/investment business are adjusted and calculated according to the internal and external information of each combination and based on current observable information and forward-looking macro-economic information (e.g. global economic growth rate, inflation rate, etc.).

The Group assesses the amount of financial asset default risk on the reporting date. In addition, based on internal and external information, the Group considers the financial assets to be used within 12 months after the reporting date and the amount expected to be used in order to determine the default risk exposure amount for the calculation of the expected credit loss.

There was no significant change in the estimation techniques or material assumptions that were used in 2018 to assess the expected credit loss.

(13) Consideration of prospective information

The Group uses historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of each asset portfolio, and estimates the impairment parameters after forward-looking adjustment according to the regression model or imputation adjustment method. The relevant economic factors and their impact on PD and LGD vary according to the type of financial instruments.

The relevant economic factors of credit assets identified by the Group in 2018 were the economic growth rate. The relevant economic factors of debt instrument identified by the Group in 2018 were the global economic growth rate and inflation rate.

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(14) Allowance for loss

Changes in allowances for bad debts related to discount and loan

Changes in the allowances for bad debts related to discount and loan for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	\$354,129	\$493	\$-	\$172,532	\$-	\$527,154	\$1,710,577	\$2,237,731
Changes in financial instruments recognized at the beginning of the period:								-
- Converted to expected credit losses of the duration	(5,380)	5,570	-	(276)	-	(86)		(86)
- Converted to financial assets with credit impairment	(14)	(82)	-	1,607,364	-	1,607,268		1,607,268
- Converted to 12-month expected credit loss	4	(39)	-	-	-	(35)		(35)
- Financial assets derecognized in the current period	(200,627)	(129)	-	(23,225)	-	(223,981)		(223,981)
Procured or initiated new financial assets	244,276	36,181	-	(59,119)	-	221,338		221,338
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							71,533	71,533
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)		(1,856,449)
Recovered amount after write-off bad debts	-	-	-	305,650	-	305,650		305,650
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	4,254	4,254
Balance, ending	\$392,388	\$41,994	\$-	\$146,477	\$-	\$580,859	\$1,786,364	\$2,367,223

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Changes in the total book value of discount and loan

Changes in the total book value for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	\$144,675,468	\$111,473	\$-	\$398,655	\$-	\$145,185,596
Converted as anticipated credit loss within the perpetuity of the financial assets	(1,330,487)	804,648	-	-	-	(525,839)
Converted as financial assets with credit impairment	(13,054)	(17,307)	-	1,627,608	-	1,597,247
Transferred out from the financial assets with credit impairment	9,280	(10,138)	-	(1,130)	-	(1,988)
Discount and loan assessed collectively	-	-	-	-	-	-
Initiated or procured discount and loans	90,115,786	2,597,645	-	274,402	-	92,987,833
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)
de-recognition	(82,659,647)	(25,136)	-	(104,642)	-	(82,789,425)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	<u>\$150,797,346</u>	<u>\$3,461,185</u>	<u>\$-</u>	<u>\$338,444</u>	<u>\$-</u>	<u>\$154,596,975</u>

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Changes in expected credit losses of the financial assets-debt instrument measured at fair value through other comprehensive income by the Group are as follows:

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2018	\$31,394	\$138,718	\$-	\$-	\$170,112
Changes arising from the recognition of financial instruments on January 1, 2018					
Converted as anticipated credit loss within the perpetuity of the financial assets	(196)	14,861	-	-	14,665
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	1,425	(63,994)	-	-	(62,569)
Financial assets removed in current period	(3,815)	(10,841)	-	-	(14,656)
Originated or purchased new financial assets	4,188	10,629	-	-	14,817
Changes in model/risk parameters	(286)	(10,670)	-	-	(10,956)
Other changes and exchange rate changes	262	353	-	-	615
Expected credit losses on December 31, 2018	<u>\$32,972</u>	<u>\$79,056</u>	<u>\$-</u>	<u>\$-</u>	<u>\$112,028</u>

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Changes in the total book value of the Group's financial assets-debt instrument measured at fair value through other comprehensive income are further explained as follows:

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2018 (Note)	\$54,188,642	\$2,543,520	\$-	\$-	\$56,732,162
Converted as anticipated credit loss within the perpetuity of the financial assets	(170,884)	176,206	-	-	5,322
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	1,349,115	(1,303,150)	-	-	45,965
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	4,447,269	122,186	-	-	4,569,455
Derecognized financial assets	(8,265,889)	(204,249)	-	-	(8,470,138)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	635,222	30,626	-	-	665,848
Total book value on December 31, 2018 (Note)	<u>\$52,183,475</u>	<u>\$1,365,139</u>	<u>\$-</u>	<u>\$-</u>	<u>\$53,548,614</u>

Note: The total book value does not include an evaluation adjustment

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The allowance for loss of the Group's receivables is measured with the expected credit loss amount of the duration. The assessment of the allowance for loss on December 31, 2018 is described as follows:

The Group's receivables are not overdue. Counterparties are groups with the considerations of their credit rating, regional, and industrial factors. Also, measure the allowance for loss with the provision matrix. For the total book value of NT\$3,713,267 thousand, the allowance for loss is measured with an expected credit loss rate of 0%~2%, so it is for an amount of NT\$70,851 thousand.

Changes in allowances or loss of notes and accounts receivables of the Group in 2018 is as follows:

	Accounts receivable
Balance – beginning (in accordance with IAS 39)	\$75,968
Adjustments to retained earnings - beginning	-
Balance – beginning (in accordance with IFRS 9)	75,968
Amount appropriated in current period	17,837
Write-off amount	(32,264)
Recovery of write-off amount	9,310
Balance, ending	<u>\$70,851</u>

(15) The Group's financial assets with the maximum credit risk exposures as of December 31, 2018 amounted to NT\$204,714,088 thousand, which include financial assets measured at fair value through other comprehensive income and discounts and loans.

(16) The maximum credit risk exposure amount of the financial instruments that are not subject to impairment requirements is as follows:

	2018.12.31	2017.12.31 (Notes)	2017.12.31 (Notes)
Financial assets measured at fair value through profit or loss			
- Debt instrument	\$24,435,062		
- Derivatives	39,017		

Note: The Group has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

(17) Collateral and other credit enhancements

The Group adopts a series of policies and measures for the credit business to reduce credit risk, one of the commonly uses methods is to request the borrower to provide collateral. For the collateral assessment management and loan collateral value calculation, the Group has procedures for the range of collateral collected, the valuation, management, and disposal of collateral formulated to ensure loans. The main types of collateral for the Group's financial assets are as follows:

- Real estate mortgage: The loan amount is set separately according to the location of the real estate. For larger amount or special products, the public appraisers are entrusted to perform price evaluation.

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- Stocks: The reasonable loan amount and evaluation criteria are formulated by the conditions of listing, OTC, emerging market, and unlisted stocks.
- Property: An appropriate loan amount is determined according to the nature of disposition and cost.
- Certificate of Deposit: Mainly refers to the Company's certificate of deposit in foreign currency.
- Credit insurance: It is handled with credit insurance for small and medium-sized enterprises.
- Rights pledge: Special rights, such as, land rights and creditor's rights are judged separately on a case-by-case basis.

For the credit preservation and collateral clauses in the credit contract, it is clearly defined that upon the occurrence of a credit event, the borrowing amount can be reduced and the borrowing repayment period can be shortened or deemed as expired entirely in order to reduce credit risk.

The collateral of other non-credit business is subject to the nature of the respective financial instrument. Only asset-based securities and other similar financial instruments are secured by a group of asset-based financial instruments.

The Group's collateral policy has no significant change occurring on the balance sheet date and there has been no significant change in the quality of the overall collateral.

The Group closely observes the value of collateral for financial instruments and considers the impairment to be appropriated for the financial assets with credit impairment occurred. The financial assets with credit impairment are as follows:

	Total book value	Provision for impairment	Total risk exposure amount (Amortized cost)
Impaired financial assets:			
Discounts and loans	\$209,397	\$57,657	\$151,740
Total financial assets with impairment	\$209,397	\$57,657	\$151,740

4. Liquidity risk

(1) Sources and definitions of liquidity risk

The definition of the Group's liquidity risk refers to the possible financial losses due to the inability of having assets cashed or obtaining loans to have the funds needed to liquidate the financial liabilities, for example, depositors' terminating deposits before the maturity date, financing channels and conditions for inter-bank lending become worse or difficult due to specific market influences. Also, the debtor's credit default situation has deteriorated, which makes the recovery of funds abnormal and the realization of financial instruments difficult. The aforementioned circumstances may weaken the Group's source of cash for financial activities, such as, loans, trading, and investment. In an extreme situation, the lack of liquidity may result in a decline in the position of the balance sheet, the sale of the asset, or the failure in meeting the

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borrowing commitment. Liquidity risk exists in the inherent risks of all banking operations and may be affected by various industry-specific or market-wide events, including but not limited to: credit events, mergers or acquisitions, systemic impact, and natural disasters.

(2) Liquidity risk management policy

The liquidity management procedures of the Group are executed separately in the Finance Department and the Risk Management Department. However, the branches are required to notify the Finance Department of the funding gap for the unified control of the Finance Department and are monitored by the independent Risk Management Department. The procedures include:

- ① Perform daily fund scheduling and monitor future cash flows to ensure the fulfillment of various needs.
- ② Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.
- ③ Monitor the liquidity ratio of the consolidated balance sheet in accordance with the internal management purposes and external regulatory requirements.

The monitoring process is based on the measurement and speculation of the future flow of funds for one day and one month (such timeframe is for the management of liquidity risk by the Group). The estimation of future cash flows begins with an analysis of the contractual maturity date of financial liabilities and the expected cash realization date of financial assets. The Risk Management Department of the Group also monitors the extent and pattern of contingent liabilities, such as mid-term and long-term borrowing commitments, discount quotas, and guarantee letters.

Relevant information is regularly reported to the Group's Risk Management Committee and the Board of Directors.

- (3) Regarding the financial liabilities held for the purpose of managing the liquidity risk, the due date of the Group's financial liability contracts is summarized in the table below. The amounts disclosed in the table are based on the contractual cash flows, so the amount disclosed in some of the projects does not correspond to the related items on the consolidated balance sheet.

2018.12.31

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial instruments</u>					
Due to Central Bank and other banks	\$17,632,276	\$2,304,975	\$-	\$-	\$19,937,251
Funds borrowed from Central Bank and other banks	2,458,640	-	-	-	2,458,640
Bills and bonds sold under repurchase agreements	22,255,969	7,060,527	-	-	29,316,496
Customer deposits and remittances	17,554,755	22,386,111	67,842,625	80,649,433	188,432,924
Other financial liabilities	220,000	1,010,000	-	-	1,230,000
<u>Derivatives</u>					
Derivative financial instruments measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	\$4,187,338	\$-	\$-	\$-	\$4,187,338

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Cash inflow	4,176,667	-	-	-	4,176,667
Net cash flow	<u>\$ (10,671)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ (10,671)</u>

2017.12.31

	<u>Not more than one month</u>	<u>1~3 months</u>	<u>3 months ~ 1 year</u>	<u>More than one year</u>	<u>Total</u>
<u>Non-derivative financial instruments</u>					
Due to Central Bank and other banks	\$21,373,988	\$895,440	\$-	\$-	\$22,269,428
Funds borrowed from Central Bank and other banks	4,815,680	270,000	230,000	-	5,315,680
Bills and bonds sold under repurchase agreements	16,165,094	5,194,711	-	-	21,359,805
Customer deposits and remittances	16,278,849	21,788,548	68,733,002	73,588,002	180,388,401
Other financial liabilities	250,000	650,000	-	-	900,000
<u>Derivatives</u>					
Financial liabilities measured at fair value through profit or loss case					
Foreign exchange derivatives					
Cash outflow	\$3,284,391	\$1,327,285	\$-	\$-	\$4,611,676
Cash inflow	3,211,838	1,271,936	-	-	4,483,774
Net cash flow	<u>\$ (72,553)</u>	<u>\$ (55,349)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ (127,902)</u>

5. Market Risk

(1) Source and definition of market risk

Market risk refers to the loss of the positions that may occur on and off the balance sheet due to the changes in market prices. The so-called market price refers to interest rate, exchange rate, stock price, and product price.

The Group shall classify the holding position into a trading book and a banking book according to its purpose. The market risks faced by each position can be divided into four risk categories: interest rate, equity securities, foreign exchange, and product.

① The "trading book" includes the position of the financial products (including goods and derivative financial products) and physical products held for the purpose of trading or for the risk hedging of the trading book position. The term "trading purpose" stated in the preceding paragraph refers to the intention of a short-term gain or to generate or secure the arbitrage from actual or expected short-term price fluctuations.

② Financial products and physical products that are not held for the aforementioned purpose are within the scope of the "banking book".

③ Market risk management scope:

I. For interest rates and equity securities, it is only necessary to compute the capital needed for market risk of the trading book.

II. For foreign exchange and products, it is necessary to compute the capital needed for all market risks.

(2) Market risk management strategy

① Market risk management strategies should be documented to explain market risk management objectives and to ensure consistency in market risk management of the Company.

② The market risk management strategies are subject to appropriate adjustments in response to the Group's operating environment and changes in risk, maintain consistency with the Group's business strategies and objectives, and cover all key

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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market risks associated with the business.

- ③ The market risk management strategies shall include at least the following:
- I. Market risk measurement methods: including qualitative and quantitative methods
 - II. Market risk monitoring methods: such as limits management, stop-loss mechanism, etc.
 - III. The Group shall establish an approval hierarchy and regulate the standard operating procedure for overrun.

(3) Market risk management process

The market risk management process includes risk identification, measurement, communication, and monitoring. The Group shall effectively identify, measure, communicate, and monitor market risks associated with all major trading products, trading activities, processes, and systems.

① Risk identification

- I. The so-called market risk factor refers to the market ratio and price that influence the price of the position. The Group's risk measurement system should have sufficient risk factors to measure the risks in the on- and off-balance sheet trading position.
- II. For any structured financial product, the market risk factors of each part should be identified in order to provide the basis for a correct measurement of the market risk exposure of the structured product.
- III. The selection of risk factors includes interest rates, exchange rates, equity securities prices, and product prices.
- IV. Each unit of the Group shall identify the market risk in business activities or financial products.

② Risk measurement

- I. The risk management personnel of the Group's business trading units shall establish reasonable verification and control procedures for the sources of market data, such as, product market price, interest rate, and exchange rate.
- II. When risk management personnel of the business transaction units measure market risk, they should consider the market liquidity risk caused by insufficient market depth, low market transparency, or market disorder.
- III. The risk management personnel of the financial transaction unit shall evaluate the trading position at least daily according to the market price. All model parameters should be evaluated daily if the model is used for evaluation.
- IV. The Group should develop a measure for measuring the overall position risk exposure according to the scale and complexity of the portfolio held. Also, avoid excessive concentration of the investment portfolio on a certain risk factor. When performing risk measurement, the individual risk of the subject matter of the transaction and the possible risk dispersion effect should be considered by evaluating the volatility and correlation of the subject matter of the transaction. And a position with poor liquidity or insufficient market price transparency should be evaluated conservatively in order to fully assess the market risks faced by the Group.

③ Risk communication

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- I. Internal report
 - i. Market risk reports are to regularly provide accurate, consistent, and timely information to senior executives as a reference for their decisions.
 - ii. The Group should establish various operating procedures to ensure that overruns and exceptions (e.g. violations of policies and procedures) can be immediately reported to the governing management.
- II. External disclosure
 - i. The market risks faced by the Group should be fully disclosed.
 - ii. The computed capital of the following risks should be disclosed:
Interest rate risk, equity securities risk, foreign exchange risk, and product risk.
 - iii. The extent of information disclosure should be in line with the scale, risk profile, and complexity of the Group's sales operations.

④ Risk monitoring

- I. Each business unit of the Group shall establish a transaction limit system, which shall be controlled by the risk management personnel on a daily basis. If there is a lack of risk management, such as, overrun or other special circumstances, it shall be reported in due course to facilitate the adoption of the response measures.
- II. The status of the transaction shall be monitored immediately and comprehensively, such as whether the changes in position, changes in profit or loss, trading patterns, and subject matter of the transaction are within the scope of business authorization.
- III. Information needed for the review of financial products valuation should be obtained by the Group externally or through a channel other than the trading unit in order to avoid manipulation of price data due to conflicts of interest.
- IV. The Group shall stipulate the limits management, stop-loss mechanism, and overrun process to effectively monitor market risks.
 - i. Limits management
The responsible business department shall set the limits for financial product transactions according to the product characteristics and authorization hierarchy, such as, traders, risk category, counterparty's trading position limits, stop-loss limits, etc.
 - ii. Stop-loss mechanism
The responsible business department shall establish a clear stop-loss mechanism and implement it to effectively control the loss within the expected range.
 - iii. Overrun processing
The responsible business department shall clearly establish a defined limit and overrun mechanism and implement it to effectively handle the extraordinary cases.

(4) Trading book risk management policy

When handling various financial transactions, it should be divided into trading books and banking books according to the intention of holding, which are defined as follows:

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① The scope and definition of the trading book: The trading book includes the position held for the purpose of trading or risk hedging of the trading book. The position must be free from any contractual restrictions in trade, or the risk can be completely hedged. The positions included in the trading book are summarized as follows:

- I . The positions held for earning a profit from the actual or expected spread.
- II . The positions held for earning a profit from other price changes.
- III . The position held due to engaging in the brokerage and trade business.
- IV . The position held to offset all or most of the risks of another asset position or portfolio on the trading book.
- V . All positions that can be traded within the predetermined investment amount.

② Trading Book Authorization Projects:

- I . Monetary market transactions: short-term bill (bond) within one year
- II . Capital market transactions: More than one year government bonds, corporate bonds, financial bonds, beneficiary securities, asset securitization bonds, stocks, various types of fund beneficiary certificates, and convertible corporate bonds.
- III . Derivative financial product transactions: including exchange rates, interest rates and stocks, etc.
- IV . Foreign exchange market transactions: foreign exchange spot, swap, forward foreign exchange, and forward rate agreement

③ Evaluation mechanism of the transaction book:

The evaluation mechanism of the Group's trading book position shall be handled by the risk management personnel who are independent of the trading desk. The trading book position shall be valued on a daily or weekly basis in accordance with the "Market to Market Method" with information from an independent source and readily available, such as, exchange prices, electronic screen quotes, or quotes from independent brokers, which should be presented to the Board of Directors for approval and future reference.

④ Management specifications and procedures for the position limits, monitoring, early warning, stop-loss, and reporting: It should be handled in accordance with the Group's "Regulations Governing Market Risk", "Regulations Governing Security Investment", "Regulations Governing Derivatives Transactions", "Regulations Governing Foreign Exchange Business", "Regulations Governing Loans Business", "Interest Rate Risk Management Policy", "Liquidity Risk Management Policy", and other relevant regulations.

(5) Management of interest rate risk in banking book

① Management strategy and process

Make adequate adjustment to respond to the changes in the Group's operating environment and the changes in risks. Maintain the Group's operational strategies and deepen the Group's operations. Enhance the performance of the Company's asset portfolio. Assess the impact of changes in interest rate on economic value or earnings. Establish the interest rate risk in banking book control mechanism in accordance with the "Regulations Governing Interest Rate Risks in Banking

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Book”, which is implemented in accordance with the procedures of identification, measurement, communication, and monitoring, so that the interest rate risk is maintained at an appropriate level. Consistency of objectives and coverage of all important interest rate risks in banking book associated with the business.

② Management organization and structure

- A. The Board of Directors is the highest decision-making authority of the Group's interest rate risk in banking book management and bears ultimate responsibility for the Group's interest rate risk in banking book.
- B. The Asset and Liability Management Committee is responsible for assessing the Group's operating performance, capital position, asset and liability risk position and interest rate sensitivity, as well as researching and adjusting the best ratio of various assets and liabilities, and evaluating the Group's deposit and loan interest rate pricing strategy.
- C. The Risk Management Committee is responsible for implementing the interest rate risk in banking book management decisions approved by the Board of Directors, coordinating the interest rate risk in banking book management matters, and continuously monitoring the performance of risk management.
- D. The Risk Management Department is the exclusive unit for the Group's interest rate risk in banking book management. It is responsible for planning, establishing, and integrating the Group's interest rate risk in banking book management operations, and implementing the Company's overall interest rate risk in banking book management and monitoring work in order to assess the impact of changes in interest rate on the economic value or earnings. Also, regularly aggregating the Company's interest rate risk in banking book management information and then report it to the Risk Management Committee and the Board of Directors, and disclose risk management information according to the regulations of the competent authorities.
- E. The business units in the head office are responsible for setting and managing the respective regulations and operating procedures for the interest rate risks in banking book, and assisting the Risk Management Department to manage the interest rate risk position related to their business.
- F. All units (including business units) of the Company are responsible for identifying the interest rate risks in the banking book, cooperating with the implementation of the interest rate risk in banking book management decisions, and adopting the risk offset treatment method or response measures approved by the GM to operate and adjust the interest rate risk exposure position on and off the balance sheet.

③ Risk reporting/measurement system scope, characteristics, and frequency

The Group makes the “Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio” the monitoring and management index to control the Group's interest rate risk in the banking book within the tolerance, and reports it to the Risk Management Committee on a monthly basis. Analyze the changes and compare them to the conditions of the last month. Provide executives with correct, consistent, and prompt information as a reference for their decision-making and have it disclosed in the risk control report to the Board of Directors on a quarterly basis. The content and scope of the risk

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control report are as follows: (I) Measurement indicators: 1. Earnings perspective (interest rate risk warning and reporting) 2. Economic value (Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio); (II) Stress test: (1) the impact of changes in interest rate on the next year "earnings" (2) the impact of changes in interest rates on economic value. The Information Department and the business units are to provide the information of relevant electronic files or written materials to the Risk Management Department in order to effectively grasp the overall risk position and to provide appropriate risk measurement results in order to assist with the interest rate risk in banking book management.

- ④ Risk hedging/risk-reducing policies and strategies and processes for keeping the monitoring and hedging/reducing risk tools effective continuously
When handling banking book interest rate risk related businesses and transactions, assess the probability of occurrence of the event or transaction loss and the severity of the loss. Also, adopt countermeasures, such as, risk hedging, risk reduction or transfer, risk control, and risk endurance.

In case of special circumstances that may seriously affect the Group's earnings or economic value, the Risk Management Department or the business units in the head office shall report it to the GM and adopt appropriate risk offset methods or response measures to reduce the banking book interest rate sensitivity net impacted position or increase the Group's capital.

(6) Market risk assessment technology

① Stress test

The stress test is to assesses the Group's risk tolerance ability under a stress scenario so the Group can then develop specific and feasible hedging strategies and response plans in order to monitor possible changes in risk conditions under various scenarios. Also, the Board of Directors and the executives determine whether the Group's risk exposure is consistent with its risk appetite and it is one of the important tools for identifying, measuring, and controlling capital adequacy and liquidity planning decisions.

※ The Group has investments classified according to the investment classification principle:

A. Domestic and foreign bonds and bills and equity investments in banking books

- a. Domestic bond investment: The book value on the base date is treated as the exposure at default (EAD) and included for calculation. The default rate (PD) is calculated according to the risk linked indicator and referring to the default rate table, and the loss given default (LGD) is divided into with and without guarantee, which are estimated separately by referring to the experience of recovery.
- b. Domestic equity investment: The book value on the base date is treated as the exposure at default (EAD). The probability of default (PD) is estimated by referring to the stress test of the credit risk of the credit position, and the loss given default (LGD) is estimated at 100% since the probability of recovery is very small.

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c. Foreign bills and bonds and equity investments: The assets related to foreign bill and bond investments and equity investments has a fixed loss rate (PD*LGD) given to calculate the expected losses under stress scenario. Of which, the probability of default for national risk exposure is mainly based on the results of its external evaluation. Also, perform a stress test only on the more serious scenarios. The probability of default for other risks is given respectively depending on whether the counterparty is in the financial industry. For the calculation of the exposure at default, the investment position is calculated on the basis of the book value.

B. Securities and derivative products transactions in the trading book

Based on the current calculation of the market risk stress test of the second pillar, the Group uses market risk factor sensitivity analysis to calculate the impact on profit or loss arising from asset impairment due to the changes in risk factors, including equity security, interest rates, gold and exchange rates, products, and credit-derived products. The change in each risk factor produces different benefits and losses in proportion to minor and severe scenarios. In the interval between various risk factors and domestic and foreign scenarios, the amount of change in the same scenario may cause some positions with benefits generated and other positions with losses resulted. Choose those with greater fluctuations in each scenario for calculation, which become the estimated loss amount under the stress scenario.

② Sensitivity Analysis

Test items: For the main trading book positions in different markets, if the computed market risk capital of the position accounts for more than 5% of the total market risk capital, the listed scenario test is carried out.

A. Interest rate risk

Assume that all factors are given, if the yield curve of all markets in the world shifted downward/upward by 100 base points on December 31, 2018, the Group's net profit or loss would increase/decrease by NT\$1,888,496 thousand, respectively.

B. Exchange rate risk

The Group assumes that all other variable factors are given, if the major currency exchange rates on December 31, 2018 were relatively appreciated/depreciated by 3%, the Group's net profit or loss before tax would increase/decrease by NT\$8,871 thousand, respectively. Of which, the main currencies are the US dollar, euro, and yen.

C. Equity securities price risk

The Group assumes that all other variable factors are given, if the price of equity securities increased/decreased by 15% on December 31, 2018, the Group's net profit or loss before tax would increase/decrease by NT\$1,061,908 thousand, respectively.

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D. Sensitivity analysis is compiled as follows:
2018.01.01 ~ 2018.12.31

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	1,061,908	2,390,595	44.42%
	Major stock markets - 15 %	(1,061,908)		-44.42%
Interest rate market	Main interest rate + 100bp	(1,888,496)		-79.00%
	Main interest rate - 100bp	1,888,496		79.00%
Foreign exchange market	Main currency +3%	8,871		0.37%
	Main currency -3 %	(8,871)		-0.37%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,941,533)		-123.05%

2017.01.01 ~ 2017.12.31

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	\$765,920	1,879,381	40.75%
	Major stock markets - 15 %	(765,920)		-40.75%
Interest rate market	Main interest rate + 100bp	(1,578,504)		-83.99%
	Main interest rate - 100bp	1,578,504		83.99%
Foreign exchange market	Main currency +3%	10,891		0.58%
	Main currency -3 %	(10,891)		-0.58%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,333,533)		-124.16%

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(7) Exchange rate risk concentration information

The Group's foreign currency financial assets and liabilities with significant impact are as follows:

	2018.12.31			2017.12.31		
	Foreign currency (NT\$ thousand)	Exchan ge rate	NTD	Foreign currency (NT\$ thousand)	Exchan ge rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$1,464,767	30.73	\$45,016,674	\$1,472,571	29.85	\$43,953,303
HKD	101,591	3.92	398,642	8,737	3.82	33,367
AUD	3,735	21.68	80,953	4,156	23.25	96,651
JPY	2,960,152	0.28	823,810	3,052,565	0.26	808,625
EUR	4,576	35.22	161,170	3,636	35.68	129,716
RMB	721,785	4.48	3,230,639	849,967	4.58	3,892,425
<u>Non-Currency</u>	-	-	-	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$1,547,009	30.73	\$47,544,224	\$1,427,916	29.85	\$42,620,427
HKD	10,940	3.92	42,928	8,268	3.82	31,576
AUD	45,089	21.68	977,341	40,932	23.25	951,849
JPY	1,484,524	0.28	413,143	1,015,044	0.26	268,885
EUR	4,491	35.22	158,168	3,318	35.68	118,371
RMB	319,247	4.48	1,428,918	349,800	4.58	1,601,909
<u>Non-Currency</u>	-	-	-	-	-	-

Due to the wide variety of foreign currencies of the Group, it is impossible to disclose the exchange gains and losses information of monetary financial assets and financial liabilities by each foreign currency with significant impact. The Group's foreign currency exchange gains and losses from January 1 to December 31, 2018 and 2017 were NT\$161,600 thousand and NT\$94,866 thousand, respectively.

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XV. Capital management

1. Overview

In response to the trend of capital management, the Group's overall business monitoring indicators are established to match the business development strategy and to reflect the overall risk situation. The various capital management indicators of the Group are as follows:

- (1) The Company's overall capital adequacy ratio shall not be less than 10.5%.
- (2) Category I capital shall not be less than 8.5% of the total risk assets.
- (3) The common stock equity shall not be less than 7.0% of the total risk assets.
- (4) The total business reserve and allowance for bad debt as stated in Category II capital with a credit risk standard adopted shall not exceed 1.25% of the total amount of credit risk and weighted risk assets.

2. Capital management procedure

- (1) The Group's capital management objectives are based on the "Legal Capital:"
Legal Capital Management Objectives: To meet the legal capital requirements of the supervisory authority, set the Group's capital adequacy ratio target, and ensure that the Group can operate safely and steadily.

(2) Legal capital management

① Demand legal capital

The Group uses the method prescribed by the supervisory authority to calculate the unanticipated losses arising from the credit risk, market risk, and operational risk under the existing assets and operating conditions, and compute the relative capital in response to the situation accordingly.

② Legal capital available

The Group's legal capital available is based on the rules published by the competent authorities to have the Group's capital classified by its source and characteristics as follows:

Category I capital: refers to the common stock equity net of the intangible assets, the deferred income tax assets arising from the losses of previous years, the business reserve and the insufficient appropriation of the allowance for bad debt, the revaluation increments of real estate, the unamortized loss of the bad debts sold, and other legal adjustment items specified and stipulated according to the calculation methods.

Common stock equity: Includes common stock and its premium on capital stock, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its premium on capital stock, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

	Bank, and non-cumulative subordinated bonds without a maturity date.
Category II capital:	Includes perpetual cumulative preferred stock and its premium on capital stock, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its premium on capital stock, real estate first-time subject to the application of International Accounting Standards, increase of retained earnings arising from the fair value or the revaluation value used as the cost, the valuation increments arising from the subsequent measurement of the investment real estate at the fair value and 45% of the unrealized benefits of the financial assets measured at fair value through other comprehensive income, business reserve and allowances for bad debts, perpetual cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its premium on capital stock.

The allowance for bad debt included in Category II capital in the preceding paragraph refers to the amount that the Company's allowance for bad debt exceeds the estimated loss of the Company based on historical losses.

- ③ The management of legal capital is to convert the unanticipated losses of each risk to the total amount of risk assets, and then have the legal capital available divided by the total amount of the risk assets to calculate the capital adequacy ratio. The basic objective is to ensure that the Group's capital adequacy ratio is maintained above the mandatory legal ratio.

(3) Capital Adequacy

The Group's consolidated qualified regulatory capital ratio and risk assets ratio on December 31, 2018 and 2017 were 14.21% and 15.80%, respectively, which were in line with the capital management regulations of the competent authorities.

XVI. Notes of disclosure

1. Information on significant transactions

- (1) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (2) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (3) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (4) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
- (5) Accounts receivable-related party reaching NTD 300 million or more than 10% of

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
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(In Thousands of New Taiwan Dollars, unless otherwise specified)

the Paid-in shares capital: None.

- (6) Information regarding sale of NPL: None.
 - (7) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
 - (8) Business relationships or important transactions and amounts between the parent company and subsidiary and among subsidiaries: Please refer to Table 1.
 - (9) Other important transactions sufficient to affect the policy to use financial statements: None.
2. Information on investee companies and total shareholding in investee companies
- (1) Information regarding investees and total shareholdings: None.
 - (2) Loans to others: None.
 - (3) Endorsements/guarantees to others: None.
 - (4) Marketable securities – end: See Attached table 2.
 - (5) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (6) Information on trading in derivative instruments: None
 - (7) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (8) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (9) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
 - (10) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
 - (11) Information regarding sale of NPL: None.
 - (12) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
 - (13) Other important transactions sufficient to affect the policy to use financial statements: None.
3. Setting up branches and investments in Mainland China
- No such event.
4. Disclosure of other supplementary information
- (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV. 3 (14) and Table 3 for details.
 - (2) Quality of assets: Detailed in Table 4.
 - (3) NPL or non-performing receivable accounts exempted from report: See Attached table 5.
 - (4) Concentration of credit risk: Please refer to Table 6 and Table 6-1.
 - (5) Interest rate sensitivity assets and liabilities analysis data: See Attached table 7 and 7-1.
 - (6) Profitability: Please refer to Table 8 for details.
 - (7) Maturity date analysis: Please refer to Table 9 and Table 9-1 for details.
 - (8) Capital Adequacy: See Attached table 10.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

XVII. Department information

1. For management purposes, the Group classifies operating units based on different products and services and is divided into the following two reporting and operations departments:

- (1) Branch business operation department: Handle deposits and loans, exchanges, guarantees, discounts and cashiers, safe deposit boxes, trust business promotion, and assets, liabilities, income, and expenses that cannot be directly attributed or cannot be properly classified to an operating department.
- (2) Financial market operation department: Take charge of the Company's fund scheduling and investment related work.

The management individually monitors the operational results of each operating department and has made decisions on resource allocation and performance evaluation. The performance evaluation of the department is based on the operating profit or loss. The accounting policies of the operating department are the same as the summary of the important accounting policies described in Note 4.

2018

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	\$3,469,344	\$1,548,149	\$-	\$5,017,493
Service fee income	1,843,003	-	-	1,843,003
Investment profit	(35,237)	26,692	-	(8,545)
Other income and expenditures	148,863	-	-	148,863
Total revenue	5,425,973	1,574,841	-	7,000,814
Depreciation and amortization	(28,202)	(21,768)	-	(49,970)
Other operating expenses	(1,607,924)	(126,497)	-	(1,734,421)
Other major non-cash accounts				
Bad debt appropriation	(1,643,112)	-	-	(1,643,112)
Segment profit/loss	\$2,146,735	\$1,426,576	\$-	\$3,573,311

2017

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	\$2,920,379	\$1,880,091	\$-	\$4,800,470
Service fee income	1,772,080	-	-	1,772,080
Investment profit	60,832	2,275,525	-	2,336,357
Other income and expenditures	96,538	-	-	96,538
Total revenue	4,849,829	4,155,616	-	9,005,445
Depreciation and amortization	(29,168)	(21,954)	-	(51,122)
Other operating expenses	(1,607,546)	(215,610)	-	(1,823,156)
Other major non-cash accounts				
Bad debt appropriation	(670,584)	-	-	(670,584)
Segment profit/loss	\$2,542,531	\$3,918,052	\$-	\$6,460,583

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(continued)
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The information relating to the assets of the Group's operating department on December 31, 2018 and 2017 is shown in the following table:

	<u>Branch business</u>	<u>Financial market</u>	<u>Adjustments and elimination</u>	<u>Total</u>
2018.12.31				
Segment assets	<u>\$176,278,426</u>	<u>\$104,549,366</u>	<u>\$266,927</u>	<u>\$281,094,719</u>
2017.12.31				
Segment assets	<u>\$166,053,907</u>	<u>\$104,847,336</u>	<u>\$275,018</u>	<u>\$271,176,261</u>

2. Product information:

The Company and its subsidiaries are divided into operating departments on the basis of business operations, so no further business information will be disclosed.

3. Regional information:

The revenues of the Company and its subsidiaries are entirely generated in Taiwan.

4. Important customer information:

The Company and its subsidiaries did not generate revenues from one specific external customer for an amount more than 10% of the Company income.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
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Attached table 1

Business relationship and significant transactions between the parent company and subsidiaries:

No. (Note 1)	Trader's name	Counterparty	Relationship with trader (Note 2)	2018.1.1 ~ 2018.12.31			
				Transactions			
				Title	Amount	Terms and conditions	Ratio of total combined revenue or total assets (Note 3)
0	The Company	Tainan Life Insurance Agent Co., Ltd.	1	Deposits and remittances	\$229,906	General	0.08%
0	The Company	Tainan Life Insurance Agent Co., Ltd.	1	Service fee income	42,312	General	0.60%
0	The Company	Tainan Life Insurance Agent Co., Ltd.	1	Other non-interest net profit or loss	1,152	General	0.02%
0	The Company	Fu Chen Property Insurance Agent Co., Ltd.	1	Deposits and remittances	6,305	General	—
0	The Company	Fu Chen Property Insurance Agent Co., Ltd.	1	Service fee income	1,598	General	0.02%
0	The Company	Fu Chen Property Insurance Agent Co., Ltd.	1	Other non-interest net profit or loss	360	General	—
0	The Company	KTB International Leasing Co., Ltd.	1	Deposits and remittances	2,723	General	—
0	The Company	KTB International Leasing Co., Ltd.	1	Other non-interest net profit or loss	624	General	0.01%
0	The Company	KTB International Real Estate Management Co., Ltd.	1	Deposits and remittances	5,441	General	—
0	The Company	KTB International Real Estate Management Co., Ltd.	1	Other non-interest net profit or loss	120	General	—

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

1. 0 is for the Parent Company.
2. Subsidiaries are numbered from number 1.

Note 2: There are three types of relationships with traders, please mark the type intended.

1. Parent company vs. subsidiaries
2. Subsidiaries vs. parent company
3. Subsidiary vs. subsidiary

Note 3: For computing the ratio of trade amount to total sales revenue or total assets, if it is for asset and liability account, the computation is based on the ratio of ending balance to total consolidated assets; however, if it is for income and expense account, the computation is based on the ratio of interim cumulative amount to total consolidated revenue.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 2

The securities held at the end of the period (excluding investment in subsidiaries, associates, and joint venture):

Holding company	Types and names of securities (Note 1)	Relationship with the securities issuer	Account titles in book	At the end of period				Remarks
				Shares (Thousand Shares)	Book value	Ratio of Shareholding	Fair value	
KTB International Leasing Co., Ltd.	Bank of Panhsin Co., Ltd.	Financial assets at fair value through other comprehensive profit or loss	Financial assets at fair value through other comprehensive profit or loss	10,600	\$66,674	0.78%	\$66,674	
KTB International Leasing Co., Ltd.	Hoyii Life Co., Ltd.	Financial assets at fair value through other comprehensive profit or loss	Financial assets at fair value through other comprehensive profit or loss	526	\$7,916	2.49%	\$7,916	
KTB International Leasing Co., Ltd.	Forest Water Environmental Engineering Co., Ltd.	Financial assets mandatorily measured at fair value through profit or loss	Financial assets mandatorily measured at fair value through profit or loss	3,500	\$196,700	2.65%	\$196,700	
KTB International Leasing Co., Ltd.	Radium Life Tech Co., Ltd.	Financial assets mandatorily measured at fair value through profit or loss	Financial assets mandatorily measured at fair value through profit or loss	1,500	\$20,625	0.17%	\$20,625	
Tainan Life Insurance Agent Co., Ltd.	MiTAC Holdings Corporation.	Financial assets mandatorily measured at fair value through profit or loss	Financial assets mandatorily measured at fair value through profit or loss	4,461	\$109,964	0.47%	\$109,964	

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, "Financial Instruments".

Attached table 3

Details of Assessed Impairment of Loans and Receivable

Loans

Item		Total loans	Allowance
		December 31, 2017	December 31, 2017
With individual objective evidence of impairment	Individual assessment of impairment	\$249,100	\$141,047
	Combined assessment of impairment	261,029	73,050
Without individual objective evidence of impairment	Combined assessment of impairment	144,675,467	2,023,634

Note: The total loans amount refers to the amount originally generated before deducting the allowance for bad debt and before deducting (adding) the discount (premium).

Receivables (including collections transferred from non-loan)

Item		Total receivables	Allowance
		December 31, 2017	December 31, 2017
With individual objective evidence of impairment	Individual assessment of impairment	\$11,454	\$8,428
	Combined assessment of impairment	4,647	1,867
Without individual objective evidence of impairment	Combined assessment of impairment	2,729,285	65,673

Note: The total receivables amount refers to the amount originally generated before deducting the allowance for bad debt and before deducting (adding) the discount (premium).

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 4

Asset quality

Non-performing loans and overdue accounts

Unit: NTD thousand, %

Year and month		December 31, 2018					December 31, 2017				
Business category\Items		Non-performing loan amount (Note 1)	Total loans	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)	Non-performing loan amount (Note 1)	Total loans	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)
Corporate banking	Secured	\$11,881	\$83,864,153	0.01%	\$1,311,246	11,036.50%	\$18,442	\$85,712,870	0.02%	\$1,122,723	6,087.86%
	Non-secured	-	51,749,234	-	745,687	-	-	40,628,343	-	858,822	-
Consumer banking	Residential mortgage loans (Note 4)	21,920	14,907,763	0.15%	250,625	1,143.36%	14,888	11,089,118	0.13%	93,448	627.67%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small credit loans (Note 5)	310	91,104	0.34%	5,307	1,711.94%	804	114,758	0.70%	108,214	13,459.45%
	Others (Note 6)										
	Secured	380	3,924,877	0.01%	52,538	13,810.63%	-	7,640,507	-	54,524	-
	Non-secured	-	59,844	-	1,820	-	-	-	-	-	-
Total amount		\$34,491	\$154,596,975	0.02%	\$2,367,223	6,863.31%	\$34,134	\$145,185,596	0.02%	\$2,237,731	6,555.68%
		NPL amount	Balance of receivable accounts	Overdue account Proportion	Allowance for bad debt Amount	Allowance for bad debt coverage rate	NPL amount	Balance of receivable accounts	Overdue account Proportion	Allowance for bad debt Amount	Allowance for bad debt coverage rate
Credit card		\$813	\$813	100.00%	\$700	86.10%	\$1,379	\$1,379	100.00%	\$1,487	107.83%
Non-recourse receivables factoring business (Note 7)		-	-	-	-	-	-	-	-	-	-

Note 1: Nonperforming loans are in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005 (Ref. No. Jin-Guan-Yin (4) 0944000378).

Note 2: Nonperforming loans ratio = Nonperforming loans ÷ Loans

Nonperforming loans of credit card ratio = Nonperforming loans of credit cards ÷ Accounts receivable

Note 3: Coverage ratio of allowance for loan losses = Allowance for loan losses ÷ Nonperforming loans

Note 4: Mortgage loans are for applicants to build or repair the buildings owned by the applicants, their spouses or their minor children. These applicants provide their buildings as collaterals and assign the right on mortgage to financial institutions.

Note 5: Credit loans are defined in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin-Guan-Yin (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note 6: The others of consumer financial business are defined as secured or unsecured consumer financial business excluding mortgage loans, cash cards, credit loans and credit cards.

Note 7: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin-Guan-Yin (5) 094000494), accounts receivable without recourse are classified as non-performing loans if not compensated by the factor or insurance company within year.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 5

NPL or non-performing receivable accounts exempted from report

	December 31, 2018		December 31, 2017	
	Total NPL exempted from report	Total non-performing receivable accounts exempted from report	Total NPL exempted from report	Total non-performing receivable accounts exempted from report
Exempted amount after a debt negotiation and contractual performance (Note 1)	\$5,658	\$105	\$8,473	\$130
Performance of debt clearance program and rehabilitation program (Note 2)	18,134	110	26,012	152
Total	\$23,792	\$215	\$34,485	\$282

Note 1: Disclosed in accordance with the Letter issued by the Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note 2: Disclosed in accordance with the letter issued by the Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2018		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,471,822	21.24%
2	Company (Group) B - General product wholesale business	5,667,055	16.11%
3	Company (Group) C - Unclassified other financial service business	4,500,000	12.79%
4	Company (Group) D - Solar Cell Manufacturing business	4,265,540	12.12%
5	Company (Group) E - Real Estate Development business	3,815,217	10.84%
6	Company (Group) F - Power supply business	3,546,733	10.08%
7	Company (Group) G - Wire & Cable manufacturing business	2,914,198	8.28%
8	Company (Group) H - Unclassified other financial service business	2,817,115	8.01%
9	Company (Group) I - Real Estate Rental and Sale business	2,740,530	7.79%
10	Company J - Computers and peripheral equipment and software retailing business	2,384,967	6.78%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Rules of TSEC’s Criteria for Reviewing Listing of Marketable Securities”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6-1

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2017		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,378,660	19.96%
2	Company (Group) B - Cable Telecommunications	5,901,648	15.97%
3	Company (Group) C - Unclassified other electronic components manufacturing business	4,855,907	13.14%
4	Company (Group) D - Unclassified other financial services business	4,700,000	12.72%
5	Company (Group) E - Wire and Cable manufacturing business	4,271,453	11.56%
6	Company (Group) F - Power supply business	3,817,817	10.33%
7	Company (Group) G - Cable Telecommunications	3,290,423	8.90%
8	Company (Group) H - General product wholesale business	2,900,000	7.85%
9	Company (Group) I - Real Estate Rental and Sale business	2,755,900	7.46%
10	Company (Group) J - Real Estate Development business	2,739,706	7.41%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Rules of TSEC’s Criteria for Reviewing Listing of Marketable Securities”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7

Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

2018.1.1~2018.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$166,900,620	\$3,528,581	\$9,675,400	\$31,557,092	\$211,661,693
Interest-sensitive liabilities	161,791,613	7,634,612	16,712,961	1,491,510	187,630,696
Interest sensitivity gap	5,109,007	(4,106,031)	(7,037,561)	30,065,582	24,030,997
Net equity					34,212,235
Ratio of interest-sensitive assets to liabilities					112.81
Ratio of interest sensitivity gap to net equity					70.24

2017.1.1~2017.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$159,323,926	\$5,460,237	\$787,967	\$39,405,511	\$204,977,641
Interest-sensitive liabilities	150,601,402	9,170,569	19,256,612	2,218,205	181,246,788
Interest sensitivity gap	8,722,524	(3,710,332)	(18,468,645)	37,187,306	23,730,853
Net equity					32,920,983
Ratio of interest-sensitive assets to liabilities					113.09
Ratio of interest sensitivity gap to net equity					72.08

- Note:
1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
 2. Interest-sensitive assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
 3. Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities.
 4. Interest-sensitive assets and liabilities rate=Interest-sensitive assets ÷ interest-sensitive liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7-1

Interest rate sensitivity assets and liabilities analysis data (USD)

2018.1.1~2018.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$316,753	\$2,299	\$-	\$-	\$319,052
Interest-sensitive liabilities	1,478,069	23,770	39,615	-	1,541,454
Interest sensitivity gap	(1,161,316)	(21,471)	(39,615)	-	(1,222,402)
Net equity					(1,202,842)
Ratio of interest-sensitive assets to liabilities					20.70
Ratio of interest sensitivity gap to net equity					101.63

2017.1.1~2017.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$254,820	\$48,486	\$41,096	\$1,094,162	\$1,438,564
Interest-sensitive liabilities	1,311,486	44,838	66,545	-	1,422,869
Interest sensitivity gap	(1,056,666)	3,648	(25,449)	1,094,162	15,695
Net equity					135,312
Ratio of interest-sensitive assets to liabilities					101.10
Ratio of interest sensitivity gap to net equity					11.60

- Note:
1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
 2. Interest-sensitive assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
 3. Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities.
 4. Interest-sensitive assets and liabilities rate=Interest-sensitive assets ÷ interest-sensitive liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 8

Profitability

Unit: %

Item		2018.12.31	2017.12.31
ROA	Pretax	1.29	2.51
	After tax	1.04	2.18
ROE	Pretax	9.91	18.52
	After tax	7.98	16.08
Net profit rate		41.11	62.30

- (Note):
1. ROA = Income before (after) taxation / Average total assets
 2. ROE = Income before (after) taxation / Average net equity
 3. Profit rate = Income after taxation / Net income
 4. Income before (after) taxation means the income accumulated from January of the current year until the current quarter

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9

Analysis of maturity structure of NTD

2018.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$229,760,884	\$64,571,579	\$9,767,412	\$19,047,650	\$47,042,010	\$89,332,233
Outward remittance of due fund	244,571,868	27,012,109	32,414,978	27,714,173	42,032,167	115,398,441
Period Difference	(14,810,984)	37,559,470	(22,647,566)	(8,666,523)	5,009,843	(26,066,208)

2017.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$221,798,037	\$59,096,729	\$7,726,761	\$17,319,568	\$31,304,964	\$106,350,015
Outward remittance of due fund	244,680,035	30,544,158	34,910,431	30,588,018	41,557,742	107,079,686
Period Difference	(22,881,998)	28,552,571	(27,183,670)	(13,268,450)	(10,252,778)	(729,671)

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9-1

USD maturity date structure analysis table

2018.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$455,838	\$146,087	\$3,790	\$22,419	\$12,045	\$271,497
Outward remittance of due fund	1,545,463	1,224,689	163,136	43,281	78,583	35,774
Period Difference	(1,089,625)	(1,078,602)	(159,346)	(20,862)	(66,538)	235,723

2017.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$1,559,338	\$96,109	\$34,611	\$44,139	\$49,089	\$1,335,390
Outward remittance of due fund	1,606,687	1,113,119	136,604	78,781	134,282	143,901
Period Difference	(47,349)	(1,017,010)	(101,993)	(34,642)	(85,193)	1,191,489

Notes to the consolidated financial statements of King's Town Bank Co., Ltd., and its subsidiaries
(continued)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 10

Capital Adequacy (Explanation 1)

Unit: NTD thousand

Analytical items		Year (Explanation 2)	December 31, 2018	December 31, 2017
Eligible Capital	Common stock equity		\$33,752,396	\$34,540,390
	Other Tier I Capital		-	-
	Tier II Capital		670,827	1,371,984
	Eligible Capital		34,423,223	35,912,374
Total risk-weighted assets	Credit Risk	Standardized Approach	197,892,405	189,364,260
		Internal Ratings-Based Approach	-	-
		Asset Securitization	-	-
	Operation Risk	Basic Indicator Approach	13,772,518	13,659,885
		Standard Method /Optional Standard Method	-	-
		Advanced Measurement Approach	-	-
	Market Risk	Standardized Approach	30,537,017	24,201,891
		Internal Models Approach	-	-
Total risk-weighted assets			242,201,940	227,226,036
Capital adequacy ratio			14.21%	15.80%
Ratio of common stock equity to risk-weighted assets			13.94%	15.20%
Ratio of Tier I capital to risk-weighted assets			13.94%	15.20%
Leverage ratio			11.17%	11.95%

Explanation:

- The amount of the regulatory capital, weighted risk assets, and total risk exposure should be calculated in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Description and Table of Calculation Methods for Capital and Risk Assets of Banks".
- The capital adequacy ratio for the current period and the previous period should be filled in the annual financial statement. The interim financial statements shall, in addition to disclosing the ratio of the current period and the previous period, also disclose the capital adequacy ratio at the end of the previous year.
- This table should demonstrate the following formula:
 - Eligible capital = Common stock equity + Other Tier I Capital + Tier II Capital
 - Total amount of risk-weighted-assets = Credit risk-weighted assets + Capital charge of (operational risk + market risk) x 12.5.
 - Capital Adequacy ratio = Total self-owned capital / Total amount risk-weighted assets.
 - Ratio of common stock equity to risk-weighted assets = Common stock equity / Total risk weighted assets.
 - Proportion of Category I capital to risk-weighted assets = (Common stock equity + Tier I Capital) / Total risk-weighted asset.
 - Leverage ratio = Tier I capital / Total exposure.
- This table may not be disclosed in the financial statements for Q1 and Q3.

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King's Town Bank Co., Ltd.

Financial Statements and Independent Auditor's Report

January 1 to December 31, 2018 and 2017

Address: No. 506, Section 1, Ximen Road, Xiancao Village, West Central District, Tainan
Tel. No.: (06)213-9171

Notice to Readers

The English version independent auditors' report and the financial statements are the translation of the Chinese version, not audited by accountants. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

Auditor's Report

To: King's Town Bank Co., Ltd.

Opinion

We have audited the accompanying balance sheet of King's Town Bank Co., Ltd. as of December 31, 2018 and 2017, and the related statement of comprehensive income, statement of changes in shareholders equity, statement of cash flows, and notes of the financial statements (including major accounting policy) for the years then ended.

In our opinion, the financial statements present fairly, in all material aspects the financial position of King's Town Bank Co., Ltd. as of December 31, 2018 and 2017, and the results of its financial performance and 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 Issuers.

Basis for opinion

We conducted the audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the financial statements section of our report. We are independent of King's Town Bank Co., Ltd. in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Remarks - application of new accounting standards

As stated in Note III in the financial statements, King's Town Bank Co., Ltd. has applied International Financial Reporting Standard (IFRS) No. 9 "Financial Instruments" since January 1, 2018 and have chosen not to re-prepare the financial statements for the comparison periods. The accountants did not revise the audit opinion as a result.

Key audit matters

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the financial statements of King's Town Bank Co., Ltd. in 2018. These matters were addressed in the content of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Financial instrument evaluation

King's Town Bank Co., Ltd., invest in different types of financial assets. As of December 31, 2018, the total financial assets measured at fair value were NT\$84,872,274 thousand, accounting for about 30% of total assets. Of which, for the investments classified in the Class II fair value hierarchy, including the derivative financial instruments of bonds and FX Swap contracts, there was a book value of NT\$39,887,636 thousand, accounting for 47% of the financial assets measured at fair value. Since the Class II investment evaluation is based on an internal evaluation model, the key input values are the yield rate and exchange rate, which have a significant impact on the estimation of fair

value. Therefore, we consider it to be a “Key Audit Matter”.

Our audit procedures include (but are not limited to) evaluating and testing the effectiveness of internal controls related to financial instrument evaluation, including the evaluation models and their assumptions managed and approved by the management. We have used the sampling basis to understand and evaluate the rationality of the key assumptions, perform an independent evaluation calculation, and adopt the assistance of internal evaluation experts to compare the differences against the evaluations made by the management in order to see whether they are within the tolerance range.

Please refer to Notes V, VI, XIII, and XIV of the financial statements for the disclosures of financial assets of King’s Town Bank Co., Ltd..

Appropriated allowance for bad debt from loans

As of December 31, 2018, the book value of the loans of King’s Town Bank Co., Ltd. was NT\$152,229,752 thousand, accounting for 55% of the total assets, which was significant for the financial statements and was subject to the assessment of expected credit losses as stipulated in IFRS 9 and “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The assumptions adopted by the management in estimating the expected credit losses include the conditions for determining whether the credit risk is significantly increased, whether credit impairment has occurred, the selection and evaluation of the forward-looking factors, the probability of default (PD), the loss given default (LGD) parameters, etc., and involve a high degree of professional judgment. Therefore, we consider them to be “Key Audit Matters”.

Our audit procedures include (but are not limited to) evaluating and testing internal controls related to the calculation of expected credit losses, examining whether the expected credit loss assessment model has been approved by the management, assessing the source of expected credit losses, and having internal experts review the reasonableness of the expected credit loss model, the appropriateness and rationality of the input parameters of the expected credit loss model in the sampling test, including the probability of default (PD) and the loss given default (LGD). In addition, we also examine whether the management complies with the requirements of the relevant authority’s written order to confirm that the loan classification and allowance for bad debts are in compliance with the statutory requirements.

Please refer to Notes V, VI, and XIV of the financial statements for the disclosure of the allowance for bad debt of King’s Town Bank Co., Ltd.

Responsibilities of Management and Those charged with Governance of the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as the management determines is necessary to enable the preparation of the financial statements to be free from material misstatement whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the ability of King's Town Bank Co., Ltd. as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate King's Town Bank Co., Ltd. or to create operations, or has no realistic alternative but to do

so.

Those charged with governance including the audit committee or supervisors are responsible for overseeing the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the accounting principles generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If fraud or errors are considered material, 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 the generally accepted auditing standards in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also perform the following works:

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 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 internal control effective in King's Town Bank Co., Ltd.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
4. Conclude the appropriateness of the use of the going concern basis of accounting by the management, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on King's Town Bank Co., Ltd. and its 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 financial statements or, if such disclosures are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause King's Town Bank Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall expression, structure, and content of the financial statements (including related notes) and whether the financial statements include the relevant transactions and events expressed adequately.
6. Obtain sufficient and appropriate audit evidence for the financial information of the Group to express an opinion on the financial statements. We are responsible for guiding, supervising, and implementing the audit of the Group; also, are responsible for forming an opinion on the

audit of the Group.

We communicate the following events with the governance unit, including the planned scope and audit time, as well as major audit findings (including significant deficiencies of internal control identified during the audit process).

We also provide a statement to the governance unit that the personnel of the CPA Firm who are subject to the regulation of independence are indeed complying with the independence requirements in accordance with the Code of Professional Ethics. Also, they communicate to the governance unit all relationships and matters (including related protective measures) that may be considered as affecting the independence of the accountants.

We use the matters communicated with the governance unit to decide the Key Audit Matters for the audit of the 2018 financial statements of King's Town Bank Co., Ltd.. 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 communications.

Ernst & Young, Taiwan

The Securities and Futures Bureau of the Financial Supervisory Commission approved the financial report of the public offering company

Auditing and Certification No.: Jin-Guan-Cheng-Shen-Zi No. 1010045851

Jin-Guan-Cheng-Shen-Zi No. 1030025503

Tzu Ren Hu

Certified CPA

Cheng Tao Chang

February 25, 2019

King's Town Bank Co., Ltd.
Balance Sheet
December 31, 2018 and 2017

Unit: NTD thousand

Assets			December 31, 2018		December 31, 2017	
Code	Accounting titles	Note	Amount	%	Amount	%
10000	Assets					
11000	Cash and cash equivalents	IV/ VI.1	\$4,319,070	2	\$4,403,324	2
11500	Due from Central Bank and lend to Banks	IV/ VI.2	13,844,758	5	14,535,143	5
12000	Financial assets at fair value through profit or loss	IV/ VI.3/ VIII	31,459,508	11	21,606,855	8
12100	Financial assets at fair value through other comprehensive profit or loss	IV/ VI.4, 29/ VIII	53,412,766	19	-	-
12200	Investment in debt instruments at amortised cost	IV/ VI.5, 29	17,597,996	6	-	-
12500	Bonds and securities sold under repurchase agreements	IV/ VI.6	624,167	-	2,565,772	1
13000	Receivable- net	IV/ VI.7	1,028,136	1	950,065	-
13500	Notes discounted and loans – net	IV/ V/ VI.8	152,229,752	55	142,947,865	53
14000	Available-for-Sale Financial Assets – net	IV/ VI.9/ VIII	-	-	58,723,646	22
14500	Held-to-maturity financial assets	IV/ VI.10	-	-	17,600,000	7
15000	Investments under the equity method - net	IV/ VI.11	988,643	-	1,066,561	-
15500	Other financial assets – net	IV/ VI.12	4,705	-	208,669	-
15513	Liability instrument investments for which no active market exists	IV/ VI.13/ VIII	-	-	1,980,968	1
18500	Property, plant, and equipment – net	IV/ VI.14	2,387,498	1	2,392,392	1
19300	Deferred income tax assets	IV/ VI.32	265,736	-	267,833	-
19500	Other assets – net	VI.15	870,298	-	745,778	-
	Total assets		<u>\$279,033,033</u>	<u>100</u>	<u>\$269,994,871</u>	<u>100</u>

(Refer to Notes to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Balance Sheet (Continued)
December 31, 2018 and 2017

Unit: NTD thousand

Liabilities and Equity			December 31, 2018		December 31, 2017	
Code	Accounting titles	Note	Amount	%	Amount	%
20000	Liabilities					
21000	Due to Central Bank and other banks	IV/ VI.16	\$19,937,251	7	\$22,269,428	8
21500	Funds borrowed from Central Bank and other banks	VI.17	2,458,640	1	4,775,680	2
22000	Financial liabilities at fair value through profit and loss	IV/ VI.18	25,784	-	127,902	-
22500	Bills and bonds sold under repurchase agreements	IV/ VI.19	29,316,496	11	21,359,805	8
23000	Payables	VI.20	2,299,446	-	2,419,466	1
23200	Current Tax Liability	IV/ VI.32	366,893	-	544,736	-
23500	Deposits and remittances	VI.21	188,677,300	68	180,719,981	67
25600	Liability reserve	IV/ VI.22, 23, 29	420,427	-	473,759	-
29300	Deferred tax liabilities	IV/ VI.32	59,890	-	50,135	-
29500	Other liabilities	VI.24	286,845	-	293,099	-
	Total liabilities		<u>243,848,972</u>	<u>87</u>	<u>233,033,991</u>	<u>86</u>
31000	Equity	VI.25				
31100	Capital stock		11,512,343	4	11,512,343	4
31500	Capital surplus		99,585	-	62,323	-
32000	Retained earnings					
32001	Legal reserve		9,555,297	3	7,872,137	3
32003	Special reserve		100,930	-	72,877	-
32011	Undistributed earnings		14,699,482	6	15,533,279	6
32500	Other equity	IV	(468,711)	-	2,037,561	1
32600	Treasury stock	IV	(314,865)	-	(129,640)	-
	Total equity		<u>35,184,061</u>	<u>13</u>	<u>36,960,880</u>	<u>14</u>
	Total Liabilities and Equity		<u>\$279,033,033</u>	<u>100</u>	<u>\$269,994,871</u>	<u>100</u>

(Refer to Notes to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Statements of Comprehensive Income
December 31, 2018 and 2017

Unit: NTD thousand

Code	Accounting titles	Note	2018		2017	
			Amount	%	Amount	%
41000	Interest revenue	IV	\$6,729,884	98	\$6,162,590	69
51000	Less: interest expense	IV	(1,836,231)	(26)	(1,423,685)	(16)
	Net interest income	VI.26	4,893,653	72	4,738,905	53
	Net income other than interest income					
49100	Service Fee, Net	IV/ VI.27	1,580,817	23	1,445,428	17
49200	Gain (loss) on financial assets and liabilities at fair value through profit and loss	IV/ VI.28	(171,180)	(3)	1,012,831	11
49300	Realized gain on available-for-sale financial assets	IV	-	-	1,070,351	12
49310	Realized gain on financial assets at fair value through other comprehensive profit or loss		53,748	1	-	-
49600	Net exchange gain	IV	161,600	3	94,866	1
47003	The share of subsidiaries, affiliates and joint venture using the equity method	IV	239,111	3	363,822	4
49700	Assets impairment loss (reversal gain)	IV/ VI.29	59,109	1	130,504	2
49800	Net income other than interest income					
49805	Net profit or loss of financial assets measured at cost	IV	-	-	24,787	-
49813	Net income on liability instrument investments for which no active market exists	IV	-	-	12,590	-
49863	Net gain (loss) from asset trade	IV	(109)	-	5,294	-
49899	Other net income		22,206	-	(20,777)	-
	Net revenue		6,838,955	100	8,878,601	100
58200	Bad debts, commitments, and guarantees reserve (computed)	IV/ VI.7、8、29	(1,606,593)	(23)	(639,497)	(7)
58400	Operating expenses					
58500	Employee benefits expenses	VI.23、30	(898,316)	(13)	(961,351)	(11)
59000	Depreciation and amortization expenses	IV/ VI.IIV、30	(49,653)	(1)	(50,954)	(1)
59500	Business and administrative expenses	IV	(779,816)	(12)	(826,544)	(9)
61000	Income before tax from continuing operations		3,504,577	51	6,400,255	72
61003	Income tax expenses	IV/ VI.32	(626,776)	(9)	(789,721)	(9)
64000	Current year net income after tax		2,877,801	42	5,610,534	63
65000	Other comprehensive profit or loss					
65200	Items not reclassified as income	IV/ VI.31、32				
65201	Defined benefit plan re-measurement amount		(8,950)	-	(7,372)	-
65204	Evaluation of the capital gain/loss from equity instrument at fair value through comprehensive income statement as other comprehensive income		(68,926)	(1)	-	-
65207	The share of other consolidated profit or loss of subsidiaries, affiliates and joint venture using the equity method - items not reclassified as income		(3,014)	-	-	-
65220	Incomes tax related to titles not subject to reclassification		8,632	-	1,254	-
65300	Items that may be re-classified subsequently under profit or loss	IV/ VI.31、32				
65301	Exchange differences from the translation of financial statements of foreign operations		64,596	1	(32,956)	-
65302	Unrealized valuation gains and losses of available-for-sale financial assets		-	-	273,701	3
65307	The share of other consolidated profit or loss of subsidiaries, affiliates and joint venture using the equity method - Items that may be re-classified subsequently under profit or loss		-	-	28,972	-
65308	Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income		(3,283,825)	(48)	-	-
65320	Income tax related to items possibly be reclassified		(12,048)	-	5,603	-
	Current period other comprehensive income (net, after tax)		(3,303,535)	(48)	269,202	3
66000	Current period total comprehensive income (after tax)		\$ (425,734)	(6)	\$5,879,736	66
	Earnings per share (NTD)	VI.33				
67500	Basic earnings per share		\$2.51		\$4.89	
67700	Diluted earnings per share		\$2.51		\$4.89	

(Refer to Notes to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Statements of Changes in Shareholders' Equity
December 31, 2018 and 2017

Unit: NTD thousand

Item	Capital stock	Capital surplus	Retained Earnings			Other Equity			Treasury stock	Total equity
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences from the translation of financial statements of foreign operations	Unrealized gain on financial assets at fair value through other comprehensive profit or loss	Unrealized gain or loss on available-for-sale financial assets		
Balance as of January 1, 2017	\$11,512,343	\$62,323	\$6,437,699	\$48,970	\$13,106,560	\$3,236	\$-	\$1,759,005	\$(129,640)	\$32,800,496
The 2016 appropriation and distribution of earnings										
Legal reserve appropriated			1,434,438		(1,434,438)					-
Appropriation of special reserve				23,907	(23,907)					-
Common stock cash dividends					(1,719,352)					(1,719,352)
2017 net income	-	-	-	-	5,610,534	-	-	-	-	5,610,534
Other comprehensive net income in 2017	-	-	-	-	(6,118)	(27,353)	-	302,673	-	269,202
Total comprehensive income in 2017	-	-	-	-	5,604,416	(27,353)	-	302,673	-	5,879,736
Balance as of December 31, 2017	\$11,512,343	\$62,323	\$7,872,137	\$72,877	\$15,533,279	\$(24,117)	\$-	\$2,061,678	\$(129,640)	\$36,960,880
Balance as of January 1, 2018	\$11,512,343	\$62,323	\$7,872,137	\$72,877	\$15,533,279	\$(24,117)	\$-	\$2,061,678	\$(129,640)	\$36,960,880
Effect of retroactive applicability and recompilation	-	-	-	-	(271,485)	-	2,850,763	(2,061,678)	-	517,600
Re-composed balance at the beginning of January 1, 2018	11,512,343	62,323	7,872,137	72,877	15,261,794	(24,117)	2,850,763	-	(129,640)	37,478,480
The 2017 appropriation and distribution of earnings										
Legal reserve appropriated			1,683,160		(1,683,160)					-
Appropriation of special reserve				28,053	(28,053)					-
Common stock cash dividends					(1,720,722)					(1,720,722)
Other capital										
Share-based payment transaction	-	37,262	-	-	-	-	-	-	129,640	166,902
2018 net income	-	-	-	-	2,877,801	-	-	-	-	2,877,801
Other comprehensive net income in 2018	-	-	-	-	(318)	52,548	(3,355,765)	-	-	(3,303,535)
Total comprehensive income in 2018	-	-	-	-	2,877,483	52,548	(3,355,765)	-	-	(425,734)
Equity instrument at fair value through other comprehensive income statement					(7,860)		7,860			-
Treasury stock buy-back cost									(314,865)	(314,865)
Balance as of December 31, 2018	\$11,512,343	\$99,585	\$9,555,297	\$100,930	\$14,699,482	\$28,431	\$(497,142)	\$-	\$(314,865)	\$35,184,061

(Refer to Notes to the financial statements)

Chairman: Chen-Chih Tai Manager: Jih-Cheng Chang Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Statements of Cash Flow
December 31, 2018 and 2017

Unit: NTD thousand

Item	2018	2017	Item	2018	2017
	Amount	Amount		Amount	Amount
Cash flow from operating activities:			Cash flow from investing activities:		
Current year net profit before taxation	\$3,504,577	\$6,400,255	Decrease in bond investments without an active market	-	761,069
Adjustments:			Purchase of property, plant, and equipment	(44,511)	(41,317)
Revenue, expense and loss that do not affect the cash flows			Proceeds from disposal of property or equipment	80	49,421
Anticipated credit impairment/ Bad debt expense	1,606,593	639,497	Net cash inflow from investing activities	(44,431)	769,173
Loss (gain) on reversal of assets impairment	(58,692)	(145,717)			
Non-financial assets impairment loss (reversal gain)	(417)	15,213	Cash flows from financing activities:		
Depreciation and amortization expenses	49,653	50,954	Funds borrowed from Central Bank and other banks (decrease)	(2,317,040)	(2,971,280)
Net interest income	(4,893,653)	(4,738,905)	Increase in bills and bonds sold under repurchase agreements	7,956,691	5,806,458
Share of profit of subsidiaries accounted for using equity method	(239,111)	(363,822)	Cash dividend released	(1,720,722)	(1,719,352)
Cost of share-based payment service	37,262	-	Treasury stock buy-back cost	(314,865)	-
Disposal and obsolescence loss (gain) of property and equipment	89	(5,294)	Treasury stock purchased by employees	129,640	-
Loss on disposal of other assets	20	-	Net cash inflow from financing activities	3,733,704	1,115,826
Changes in assets/liabilities relating to operating activities					
Due from Central Bank and lend to Banks (increase)	(292,920)	(250,112)	Impact of changes in exchange rate on cash and cash equivalents	64,596	(32,956)
Financial assets at fair value through profit and loss (increase)	(8,927,828)	(16,021,499)	Current cash and cash equivalents (decrease)	(3,009,164)	(20,681,629)
Accounts receivable (increase)	6,952	186,652	Balance of cash and cash equivalents, beginning of period	16,482,563	37,164,192
Discounts and loans (increase)	(10,957,924)	(19,308,792)	Balance of cash and cash equivalent, end of period	<u>\$13,473,399</u>	<u>\$16,482,563</u>
Available-for-Sale Financial Assets (decrease)	-	5,487,527	Composition of cash and cash equivalents		
Financial assets at fair value through other comprehensive profit or loss (decrease)	3,875,594	-	Cash and cash equivalents on the consolidated balance sheet	\$4,319,070	\$4,403,324
Held-to-maturity financial assets (increase)	-	(17,600,000)	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	8,530,162	9,513,467
Other financial assets (increase)	(4,649)	(3,211)	Bonds and securities sold under repurchase agreements satisfied the definition of cash and cash equivalents under IAS No.7	624,167	2,565,772
Other assets decrease (increase)	(124,540)	(91,879)	Balance of cash and cash equivalent, end of period	<u>\$13,473,399</u>	<u>\$16,482,563</u>
Due to Central Bank and other banks (decrease) increase	(2,332,177)	11,887,980			
Financial liabilities at fair value through profit and loss (increase)	(102,118)	92,956			
Payables (decrease) increase	(146,897)	160,823			
Increase in deposits and remittances	7,957,319	6,892,119			
Decrease in liabilities reserve	(43,538)	(44,999)			
Increase (decrease) in other liabilities	(6,254)	16,115			
Interest received	6,663,543	6,096,528			
Cash dividends received	271,620	323,904			
Interest payment	(1,809,354)	(1,407,457)			
Income tax payment	(796,183)	(802,508)			
Net cash outflow from operating activities	(6,763,033)	(22,533,672)			

(Refer to Notes to the financial statements)

Chairman: Chen-Chih Tai

Manager: Jih-Cheng Chang

Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd.
Notes to financial statements
January 1 to December 31, 2018 and 2017
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Organization and operations

1. King's Town Bank Co., Ltd., (hereinafter referred to as the "Company") was restructured from Tainan District Joint Savings Co., Ltd., on January 1, 1978. The Company had applied for restructuring into a commercial bank according to the resolution reached in the extraordinary shareholders meeting on November 29, 2005 and was renamed as "King's Town Bank Co., Ltd." The Company started trading on the Taiwan Stock Exchange since July 1983. The place of registration and the general management office are located at No. 506, Section 1, Ximen Road, Xiancao Village West Central, Central and Western District, Tainan City, and branches are setup nationwide.
2. The Company's main business services are: (1) accepting check deposits, (2) accepting other deposits, (3) issuing financial bonds, (4) handling loans, (5) handling bill discounts, (6) handling various investment businesses, (7) handling domestic and foreign exchange, (8) handling draft acceptance, (9) issuing domestic and foreign letters of credit, (10) handling domestic and foreign guarantees, (11) handling collections and advances, (12) handling the depository and agency services related to the various businesses listed above, and (13) other business chartered by the government.
3. The Company had 954 employees and 938 employees as of December 31, 2018 and 2017, respectively.

II. Financial reporting date and procedures

The financial statements of the Company for the period of January 1 – December 31, 2018 and 2017 were approved for publication by the Board of Directors on February 25, 2019.

III. Application of new and revised standards and interpretation

1. Changes in accounting policies resulting from the first-time application of International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations or Notices that have been approved by the Financial Supervisory Commission (hereinafter referred to as the "FSC") for application after January 1, 2018. Except for the nature and impact of the new standards and amendments described below, the first-time application has no significant impact on the Company:

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

For International Financial Reporting Standard upgraded from the 2017 version to 2018 version, the impact of the adjustments made on the first-time application date on each item of the Company's balance sheet on January 1, 2018 is summarized as follows:

	Before December 31, 2017	Adjustment amount	After January 1, 2018
Current assets:			
Financial assets at fair value through profit and loss	\$21,606,855	\$924,825	\$22,531,680
Available-for-sale financial assets (including cost measurement of \$207,313)	58,930,959	(58,930,959)	-
Financial assets at fair value through other comprehensive profit or loss	-	60,582,551	60,582,551
Held-to-maturity financial assets	17,600,000	(17,600,000)	-
Investments under the equity method - net (Note)	1,066,561	(42,395)	1,024,166
Liability instrument investments for which no active market exists	1,980,968	(1,980,968)	-
Financial assets based on cost after amortization	-	17,597,864	17,597,864
Current liabilities:			
Liability reserve	473,759	33,318	507,077
Equity:			
Retained earnings	15,533,279	(271,485)	15,261,794
Other equity	2,037,561	789,085	2,826,646

Note : It is an adjustment of the unlisted counter stock \$120,000 held by the subsidiaries, which is measured at fair value in accordance with IFRS 9.

(1) IFRS 9 "Financial instruments"

IFRS 9 replaced the requirements of IAS 39. The Company has chosen not to have the financial statements re-prepared for the comparison periods on the first-time application (January 1, 2018) in accordance with the transitional provisions of IFRS 9. The impact of adopting IFRS 9 is as follows:

A. IFRS 9 has been adopted since January 1, 2018. IAS 39 was adopted before January 1, 2018. Please refer to Note IV for the explanation of accounting policies.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

B. According to the transitional provisions of IFRS 9, based on the facts and circumstances existing on January 1, 2018, the business model is evaluated and the financial assets are classified appropriately according to the provisions of IFRS 9. The classification and book value of financial assets on January 1, 2018 are illustrated as follows:

International Accounting Standard No. 39 (IAS 39)		International Financial Reporting Standard No. 9 (IFRS 9)	
Classification of measurement	Book value	Classification of measurement	Book value
Measured at fair values through profit and/or loss	\$21,606,855	Measured at fair values through profit and/or loss	\$22,531,680
Measured at fair values through other comprehensive income		Measured at fair values through other comprehensive income	60,582,551
Available-for-sale financial assets (including cost measurement of \$207,313)	58,930,959		
Measurement of amortized cost		Measurement of amortized cost	
Held-to-maturity financial assets	17,600,000		
Loans and accounts receivable:			
Cash and cash equivalents (excluding cash on hand)	2,912,295	Cash and cash equivalents (excluding cash on hand)	2,912,295
Due from Central Bank and lend to Banks	14,535,143	Due from Central Bank and lend to Banks	14,535,143
Bonds and securities sold under repurchase agreements	2,565,772	Financial assets based on cost after amortization	17,597,864
Accounts receivable	950,065	Bonds and securities sold under repurchase agreements	2,565,772
Discounts and loans	142,947,865	Accounts receivable	950,065
Other financial assets	1,356	Discounts and loans	142,947,865
Liability instrument investments for which no active market exists	1,980,968	Other financial assets	1,356
	<u>165,893,464</u>	Subtotal	<u>181,510,360</u>
Subtotal	<u>183,493,464</u>		
Liability reserve	(473,759)	Liability reserve	(507,077)
Total	<u>\$263,557,519</u>	Total	<u>\$264,117,514</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

C. When transiting from the provision of IAS 39 to IFRS 9 on January 1, 2018, the classification of financial assets and financial liabilities is further described as follows:

International Accounting Standard No. 39 (IAS 39)	Book value	International Financial Reporting Standard No. 9 (IFRS 9)	Book value	Amount of difference	Retain earnings adjustment amount	Other equity adjustment amount
Account titles		Account titles				
Financial assets						
Financial assets at fair value through profit and loss						
Held-for-trade (Note 1)	\$21,606,855	Measured at fair values through profit and/or loss	\$21,606,855	\$-	\$-	\$-
Available-for-sale financial assets (including original investment cost of \$207,313 and listed independently at cost) (Note 2) (Note 4)	924,825	Measured at fair values through profit and/or loss	924,825	-	(81,696)	81,696
	1,058,305	Equity measured at fair value through other comprehensive income	1,576,900	518,595	-	518,595
	56,947,829	Debt instrument measured at fair value through other comprehensive income	56,947,829	-	(166,922)	166,922
Subtotal	<u>58,930,959</u>					
Held-to-maturity financial assets (Note 3) (Note 4)	17,600,000	Financial assets based on cost after amortization	17,597,864	(2,136)	(2,136)	-
Investments under the equity method - net	1,066,561	Investments under the equity method - net	1,024,166	(42,395)	15,777	(58,172)
Loans and accounts receivable (Note 3) (Note 4)						
Debt instrument investment without a market price available	1,980,968	Debt instrument measured at fair value through other comprehensive income	2,057,822	76,854	(3,190)	80,044
Cash and cash equivalents (excluding cash on hand)	2,912,295	Cash and cash equivalents (excluding cash on hand)	2,912,295	-	-	-
Due from Central Bank and lend to Banks	14,535,143	Due from Central Bank and lend to Banks	14,535,143	-	-	-
Bonds and securities sold under repurchase agreements	2,565,772	Bonds and securities sold under repurchase agreements	2,565,772	-	-	-
Accounts receivable	950,065	Accounts receivable	950,065	-	-	-
Discounts and loans	142,947,865	Discounts and loans	142,947,865	-	-	-
Other financial assets	1,356	Other financial assets	1,356	-	-	-
Subtotal	<u>165,893,464</u>					
Financial liabilities						
Liabilities reserve (Note 4)	(473,759)	Liability reserve	(507,077)	(33,318)	(33,318)	-
Total	<u>\$264,624,080</u>	Total	<u>\$265,141,680</u>	<u>\$(271,485)</u>	<u>\$789,085</u>	

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Note:

1. The held-for-trade financial assets measured at fair value through profit or loss according to IAS 39 include funds, beneficiary certificates, convertible corporate bonds, derivative financial instruments, and listed company's stock investments. As the cash flow characteristics of these investments are not entirely attributable to the principal and the interest of the outstanding principal amount, they are classified as measured at fair value through profit or loss in accordance with IAS No. 9.
2. Classified as an available-for-sale financial assets investment, including funds, beneficiary certificates, stocks, and bonds in accordance with IAS No. 39. The relevant information on the classification changes is as follows:

- a. Fund and beneficiary certificate

As the cash flow characteristics of the fund and beneficiary certificate are not entirely attributable to the principal and the interest of the outstanding principal amount, they are classified as measured at fair value through profit or loss mandatorily according to the provisions of IFRS 9. An amount of NT\$340,755 thousand was reclassified from the available-for-sale financial assets to the financial assets measured at fair value through profit or loss on January 1, 2018. In addition, the change in fair value of those booked under "other equity" for an amount of NT\$(66,760) thousand was reclassified to retained earnings.

- b. Stock investment (including the stocks of listed and unlisted company)

Among the available-for-sale financial assets, the stock investment that is measured at fair value, when it is derecognized, the accumulated profit or loss previously recognized in the "other comprehensive gains and losses" should be reclassified from the equity to profit or loss. However, if the subsequent fair value changes of the aforementioned stock investments are included in other comprehensive gains and losses according to the provision of IFRS 9, the amounts included in other comprehensive gains and losses cannot be subsequently transferred to profit or loss, when it is derecognized, the accumulated amount in the other equity should be transferred directly to the retained earnings (not reclassified to profit or loss).

Assessed according to the facts and circumstances that existed on January 1, 2018, except for having those not held-for-trade investment options designated as financial assets measured at fair value through other comprehensive income, and the rest were reclassified as financial assets measured at fair value through profit or loss mandatorily.

The not held-for-trade investments were reclassified from available-for-sale financial assets (including cost for NT\$207,313 thousand) to the financial assets measured at cost through other comprehensive income for an amount of NT\$1,058,305 thousand on January 1, 2018. The relevant adjustments are as follows:

- (a) For the unlisted stock that was previously measured at cost according to

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

IAS 39, its original book value of NT\$207,313 thousand does not need to recognize impairment loss according to the provision of IFRS 9. Also, it must be measured at fair value. The Company had its fair value measured and booked for an amount of NT\$725,908 thousand on January 1, 2018. Therefore, the book value of the financial assets measured at fair value through other comprehensive income was adjusted to NT\$518,595 thousand. Also, the other equity is adjusted to NT\$518,595 thousand.

- (b) The listed company's stock of NT\$850,992 thousand measured at fair value did not result in a difference in the book value. It was reclassified on January 1, 2018 to the account that was measured at fair value through other comprehensive income. The items in the other equity were reclassified.

The financial assets that were reclassified from the available-for-sale financial assets to the financial assets measured at fair value through profit or loss on January 1, 2018 was for an amount of NT\$584,070 thousand. This stock is measured at fair value and the reclassification does not result in a difference in the book value.

c. Bonds

The cash flow of the bond investment is mainly for the payment of the principal and the interest of the outstanding principal amount. According to IFRS 9, if the business model is to collect and sell a contractual cash flow, it is reclassified as a financial asset measured at fair value through other comprehensive income. This reclassification does not result in a difference in the book value.

3. It is classified as held-to-maturity financial assets by the Company in accordance with IAS No. 39, and its cash flow is mainly for the payment of the principal and the interest of the outstanding principal amount. Assessed according to the facts and circumstances that existed on January 1, 2018, the business model was for collecting contractual cash flow, which was in line with the requirement of being measured at the amortized cost. Therefore, on January 1, 2018, the held-to-maturity financial assets for an amount of NT\$17,600,000 thousand were reclassified as financial assets measured at the amortized cost.

The Company's cash flow of the bond investment is mainly for the payment of the principal and the interest of the outstanding principal amount. According to the provisions of IFRS 9, assessed according to the facts and circumstances that existed on January 1, 2018, if the business model was to collect and sell a contractual cash flow, the debt instrument investments without a market price available for an amount of NT\$1,980,968 thousand were reclassified as a financial assets measured at fair value through other comprehensive income. However, according to the provisions of IFRS 9, it must be measured at fair value. This reclassification resulted in the book value of the financial assets and other equity increasing by NT\$2,057,822 thousand and NT\$80,044 thousand, respectively.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

4. Financial asset impairment assessment

Adjusted the allowance for impairment balance that was recognized in accordance with the loss model of the IAS 39 in the previous period to the allowance for impairment balance that was recognized in accordance with the loss model of IFRS 9 on January 1, 2018 as follows:

Type of measurement	The balance of provision for impairment under IAS 39 and the amount appropriated under IAS37	Reclassification	Reevaluation	The balance of provision for impairment under IFRS 9
Available-for-Sale Financial Assets (IAS39)				
Classified to the financial assets measured at fair value through other comprehensive income (IFRS9)	\$-	\$-	\$166,922	\$166,922
Held-to-maturity (IAS39)				
Classified to financial assets measured at amortized cost (IFRS9)	-	-	2,136	2,136
Debt instrument investment without an available market price (IAS39)				
Classified to the financial assets measured at fair value through other comprehensive income (IFRS9)	-	-	3,190	3,190
Commitment of financing and guaranty liability				
Loan (financing commitment)	-	-	33,318	33,318
Total bookkeeping amount	\$-	\$-	\$205,566	\$205,566

For financial assets that are not measured at fair value through profit or loss, according to the provisions of IFRS 9, the impairment of debt instruments and financing commitments is assessed with the estimated credit loss model. The financial assets and retained earnings measured at amortized cost are reduced by NT\$2,136 thousand and NT\$205,566 thousand under this assessment, respectively. Also, the liability reserve and other equity are increased by NT\$33,318 thousand and NT\$170,112 thousand, respectively.

D. Please refer to Note IV, V, VI, and XII for the notes and disclosures as stipulated in IFRS 7 and IFRS 9.

2. The Company has not yet adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	IFRS 16 "Leases"	January 1, 2019
2	International Financial Reporting Interpretations Committee (IFRIC) No. 23 "Uncertainty Over Income Tax Treatments".	January 1, 2019
3	Amendments to IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2019
4	Early repayment characteristics with negative compensation (Amendment to IFRS 9)	January 1, 2019
5	Annual Improvements to IFRSs: 2015-2017 Cycle	January 1, 2019
6	Plan revision, reduction, or liquidation (Amendment to IAS 19)	January 1, 2019

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(1) IFRS 16 “Leases”

This new standard requires the lessee to adopt an accounting model for all leases, except for leases that meet and select a short-term lease or low-value target assets. In other words, recognize the right-of-use assets and lease liabilities on the balance sheet. Also, the depreciation expenses and interest expenses related to the lease are recognized in the income statement. In addition, the lessor's leases are classified as operating leases and finance leases, provided that more relevant disclosure information is required.

(2) International Financial Reporting Interpretations Committee (IFRIC) No. 23 “Uncertainty Over Income Tax Treatments”.

The interpretation specifications provide how to apply the recognition and measurement of IAS 12 “Income Taxes” when there is uncertainty about the tax treatment.

(3) Amendments to IAS 28 “Investments in Associates and Joint Ventures”

According to this amendment, the long-term equity that is part of an investment of an affiliate or a joint venture is subject to IFRS 9 before being subject to IAS 28. Also, any adjustment that could result from being subject to IAS 28 is not considered when IFRS 9 is applied.

(4) Early repayment characteristics with negative compensation (Amendment to IFRS 9)

This amendment allows having the financial assets with an early repayment characteristic (allowing the contractual party to pay or receive reasonable compensation for having the contract terminated early) be measured at amortized cost or measured at fair value through other comprehensive income.

(5) Annual Improvements to IFRSs: 2015-2017 Cycle

IFRS 3 “Business Combinations”

This amendment clarifies that when an enterprise has joint control over the joint operations, the previously held equity in joint operations should be measured again.

IFRS 11 “Joint arrangements”

The amendment clarifies that when an enterprise has joint control over the joint operations without having the joint control at the first place, the previously held equity in joint operations will not be measured again.

IAS 12 “Income Tax”

The amendment clarifies that the enterprise should recognize the income tax effect of dividends according to the previous transactions or events recognized in profit or loss, other comprehensive income, or equity.

IAS 23 “Borrowing Costs”

This amendment clarifies that an enterprise should treat borrowings specifically borrowed for the assets in the form of a general borrowing when the asset is available for its intended use or sale.

(6) Plan revision, reduction, or liquidation (Amendment to IAS 19)

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

This amendment clarifies that when there are changes in the defined benefit plan (such as, amendments, reductions, or settlements), the company should use the updated assumptions to re-measure its net defined benefit liabilities or assets.

The above is the new publications, revisions, and amendments or interpretations announced by the International Accounting Standards Board and approved by the FSC and applied since January 1, 2019. The Company has assessed and concluded that, except for the impact in (1) above is described below, the remaining new announcements or amendments to the standards or interpretations have no material impact on the Company.

(1) IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, International Financial Reporting Interpretations Committee (IFRIC) No. 4 “Determining whether an arrangement includes leases”, Interpretation No. 15 “Business Leasing: Incentives”, and Interpretation Announcement No. 27 “Assessing the substance of the transaction in the legal form involving the lease”. The impact of IFRS 16 on the Company is described as follows:

A. For the definition of lease, the Company applies the transitional provisions of IFRS 16 and chooses not to reassess whether the contract is (or includes) a lease on the first-time application date (i.e. January 1, 2019). The Company applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRS 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRS 4 were previously applied does not apply to IFRS 16.

The Company is a lessee and chooses not to re-compile comparative information according to the transitional provisions of IFRS 16. The cumulative amount of the initial application was recognized on January 1, 2019 and it was adjusted to the beginning balance of the retained earnings (or other composition of equity, if applicable) on the first-time application date.

A lease that is classified as an operating lease

The Company expects to have the present value (discounted at the incremental borrowing interest rate of the lessee on January 1, 2019) of the remaining lease that was classified as an operating lease when applying IAS 17 measured and recognized as a lease liability on January 1, 2019. In addition, on the basis of individual leases, the Company chooses to measure and recognize the right-of-use assets according to the lease liability amount (but adjusting the lease payments amount that is prepaid or payable in relation to the lease).

The Company expects that the right-of-use assets and lease liability will be increased by NT\$271,864 thousand and NT\$271,864 thousand on January 1, 2019, respectively.

B. Additional disclosure of relevant notes is added according to the provisions of IFRS 16 “Lessees and lessors”.

3. As of the date of the financial report published, the Company has not adopted the following new publication, revision, and amendment or interpretation of the standards announced by the International Accounting Standards Board but not yet approved by the FSC.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.	To be determined by the "International Accounting Standards Board (IASB).
2	IFRS 17 "Insurance Contracts"	January 1, 2021
3	Definition of Business - Amendment to IFRS 3 "Business Combinations".	January 1, 2020
4	Definitions of "Significance" - Amendments to IAS 1 and 8.	January 1, 2020

- (1) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.

This plan is to handle the inconsistency on the loss of control due to the investment in associates or joint ventures by subsidiaries according to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures". When investing in non-monetary assets to exchange for the equity of the associates or joint ventures according to IAS 28, the resulting profits or losses should be eliminated in accordance with the treatment of downstream transactions. According to IFRS 10, the profit or loss should be recognized fully when losing control over the subsidiaries. This amendment limits the foregoing provisions of IAS 28. When it is constituted as the sale or investment of business assets as stipulated in IFRS 3, the resulting profit or loss should be fully recognized.

This amendment also modifies IFRS 10 to enable investors and their associates or joint ventures to recognize the profit or loss to the extent of the portion that is not distributed to the investors when selling or investing in subsidiaries that do not meet the definition as stipulated in IFRS 3.

- (2) IFRS 17 "Insurance Contracts"

This standard provides a comprehensive model of insurance contract, including all accounting related parts (recognition, measurement, expression, and disclosure principles). The core of the standard is a general model. Regarding this model, the original recognition is based on the total amount of the contractual cash flow and contractual services margin to measure the insurance contracts, of which, the contractual cash flow includes:

- A. Estimated future cash flow
- B. Discount rate: Adjustments that reflect the time value of money and the financial risks (within the estimation range of the future cash flow that does not include financial risk) associated with future cash flows; and
- C. Adjustment of non-financial risks

The book value of the insurance contracts at the end of each reporting period is the sum of the remaining security liabilities and the claims liabilities incurred.

In addition to the general model, it provides:

- A. Specific applicable method (variable fee approach) for the contracts with a direct participation characteristic
- B. Simplification of short-term contracts (Premium Allocation Approach)

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(3) Definition of business (Amendment to IFRS 3)

This amendment clarifies the definition of business as stipulated in IFRS 3 "Business Combinations" to help enterprises identify that transactions are handled in accordance with the business combination or the assets acquisition approach. IFRS 3 continues to determine whether the acquisition activity or assets portfolio is a business from the viewpoint of the market participants, including clarifying the minimum requirements of the business, adding guidance to assist enterprises in assessing whether the process of acquisition is substantial, and reducing the definition of the business and output.

(4) Definitions of "Significance" (Amendments to IAS 1 and 8)

The definition of the "material information" is amended as: The omission, misrepresentation, or ambiguity of certain information is expected to affect the decisions made by the primary users of the general-purpose financial statements. This amendment clarifies that the degree of significance will depend on the nature or size of the information. An enterprise will need to consider whether the information in the financial statements is individually or collectively significant. If it is reasonably expected to affect the primary user, the misrepresented information is significant.

The aforementioned standards or interpretations have been issued by the IASB but have not yet been approved by the FSC. The actual date of application is subject to the requirements of the FSC. The new announcement or amendment of the standard or interpretation has no significant impact on the Company.

IV. Summary of significant accounting policies

1. Compliance Statement

The financial statements of the Company for the period of January 1 - December 31, 2018 and 2017 are prepared according to the "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Securities Firms".

2. Basis of preparation

The Company prepares financial statements based on the "Regulations Governing the Preparation of Financial Reports by Securities Issuers". According to the Article 21 of "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the profit or loss during the period and other comprehensive income presented in parent company only financial reports shall be the same as the allocations of profit or loss during the period and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. The financial statements are based on historical cost, except for financial instruments measured at fair value. Unless otherwise stated, the financial statements are prepared in the currency of New Taiwan Dollars (NT\$ Thousand).

3. Foreign currency transactions

The financial statements of the Company are expressed in the Company's functional currency (New Taiwan Dollars). Each subsidiary of the Company determines its own functional currency and measures its financial statements in that functional currency.

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The foreign currency transactions of each subsidiary of the Company are converted to its functional currency according to the exchange rate on the transaction date. At the end of each reporting period, foreign currency monetary items are translated at the closing exchange rate of the day. The foreign currency non-monetary items measured at fair value are translated at the exchange rate on the date of fair value applied. The foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the original trading day.

Except for the following, the exchange differences arising from the clearing or translation of monetary items are recognized as profit or loss in the period in which they are incurred:

- (1) For the foreign currency borrowings arising from acquiring assets that meet the requirements, the resulting exchange differences are treated as an adjustment to the interest cost and are capitalized as part of the borrowing cost.
- (2) Foreign currency projects subject to the provisions of IFRS 9 "Financial Instruments" (before January 1, 2018, IAS 39) are treated in accordance with the accounting policies of financial instruments.
- (3) For the monetary items of the reporting entity that are an integral part of the net investment in the foreign operating institution, the resulting exchange differences were originally recognized in other comprehensive income and are reclassified from equity to profit or loss when the net investment is disposed.

When the profit or loss of a non-monetary item is recognized as other comprehensive income, any exchange profit or loss is recognized in other comprehensive income. When the profit or loss of a non-monetary item is recognized in profit or loss, any exchange profit or loss is recognized in profit or loss.

4. Conversion of financial statements in foreign currency

When preparing the financial statements, the assets and liabilities of foreign operating institutions are translated into New Taiwan Dollars at the closing exchange rate on the balance sheet date. The income and loss items are translated at the average exchange rate for the current period. The exchange difference arising from the conversion is recognized as other comprehensive income. When the foreign operating institution is closed, the accumulated exchange difference previously recognized in other profit or loss and included in the equity is reclassified from the equity to the profit or loss at the time of recognizing the disposal profit or loss.

5. Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits, and short-term and highly liquid time deposits or investments (including time deposits with a contract period within 12 months) that are readily convertible into fixed cash amount and have a very low risk of changes in value. For the cash flow statement, it also includes the deposits at the Central Bank, interbank lending, and resell (RS) bill and bond investments in accordance with the cash and cash equivalent stipulated in IAS 7 that is approved by the FSC.

6. Bonds Purchased under Resell/Notes Issued under Repurchase Agreements

The accounting process of RP/RS and bond transactions is as follows: (1) For an RP bill

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transaction, credit the RP bill and bond liability. The trade difference is booked as an interest expense; (2) For an RS bill transaction, debit the RS bill and bond investment. The trade difference is booked as interest income.

7. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the financial instrument contract.

Financial assets and financial liabilities subject to the provisions of IFRS 9 "Financial Instruments" (before January 1, 2018, IAS 39), at the time of original recognition, were measured at fair value. The acquisition or issuance transaction costs that are directly attributable to the financial assets and financial liabilities (except for financial assets and financial liabilities that are classified as measured at fair value through profit or loss) are added or subtracted from the fair value of the financial assets and financial liabilities.

(1) Recognition and measurement of financial assets

The accounting treatment since January 1, 2018 is as follows

The recognition and de-recognition of all the financial assets of the Company are handled with the trade date accounting.

The Company uses the following two items to have financial assets classified as subsequently measured at amortized cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss:

- A. Operating model of financial assets management
- B. Contractual cash flow characteristics of financial assets

Financial assets based on cost after amortization

Financial assets that meet the following two conditions are measured at amortized cost and booked in the balance sheet in terms of notes receivable, accounts receivable, financial assets measured at amortized cost, and other receivables.

- A. Operating model of financial assets management: hold financial assets to collect contractual cash flow
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

These financial assets (excluding those involved in hedging) are subsequently measured at the amortized cost [(the amount measured at the time of original recognition, less the principal paid, plus or minus the cumulative amortization amount (with the effective interest method) between the original amount and the amount due), and adjusting the allowance for loss]. For de-recognition, the benefits or losses are recognized in profit or loss through amortization procedures or recognition of impairment profit or loss.

Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:

- A. For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
- B. Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of

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the financial assets.

Financial assets at fair value through other comprehensive profit or loss

Financial assets that meet the following two conditions are measured at fair value through other comprehensive income and are expressed on the balance sheet as financial assets measured at fair value through other comprehensive income:

- A. Operating model of financial assets management: Collect contractual cash flows and sell financial assets.
- B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

The recognition of the profit or loss related to such financial assets is as follows:

- A. Before de-recognition or reclassification, except for the impairment profit or loss and foreign currency exchange gains and losses recognized in profit or loss, the profit or loss is recognized in other comprehensive income.
- B. At the time of de-recognition, the cumulative profit or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment.
- C. Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:
 - (a) For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
 - (b) Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of financial assets.

In addition, for an equity instrument that is subject to IFRS 9 and the equity instrument is neither held for trading nor is subject to the contingent considerations recognized by the acquirer as stipulated in IFRS 3 "Business Combinations", in the original recognition, the subsequent changes in fair value are booked in other comprehensive income (irrevocably). The amount included in other comprehensive income cannot be subsequently transferred to profit or loss (when the equity instruments are disposed of, the accumulated amounts included in other equity items are transferred directly to retained earnings). Also, it is booked as a financial asset measured at fair value through other comprehensive income on the balance sheet. Investment dividends are recognized in profit or loss unless such dividend clearly represents a recovery of the investment cost.

Financial assets at fair value through profit and loss

Financial assets are measured at fair value through profit or loss and are booked in the balance sheet as financial assets measured at fair value through profit or loss, except for the financial assets in the preceding paragraph that meet certain conditions and are measured at amortized cost or measured at fair value through other comprehensive income.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset.

The accounting treatment before January 1, 2018 is as follows:

The recognition and de-recognition of all the financial assets of the Company are handled with the trade date accounting.

The Company's financial assets are classified into four categories: Financial assets measured at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The said classification is determined depending on the nature and purpose of the financial assets initially recognized.

Financial assets at fair value through profit and loss

Financial assets measured at fair value through profit or loss include held-for-trade and those designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

- A. It is obtained mainly for the purpose of being sold in the short-term.
- B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
- C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivative financial instruments, an overall hybrid (combined) contract can be designated as a financial asset measured at fair value through profit or loss, or when one of the following factors is met to provide more relevant information, it is designated to be measured at fair value through profit or loss when it is originally recognized:

- A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
- B. The financial assets, financial liabilities or both, according to a written risk management or investment strategy, are managed at fair value with the performance evaluated and the investment portfolio information provided to management within the consolidated company is also based on the fair value.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset (including those received in the investment year).

If such financial assets are without an available market price and the fair value cannot be reliably measured, the financial assets are measured at the net cost of impairment loss at the end of the reporting period and the financial assets measured at the cost are presented on the balance sheet.

Available-for-Sale Financial Assets

The available-for-sale financial assets are non-derivative financial assets and they are designated for sale or are not classified as financial assets measured at fair value through profit or loss, held-to-maturity investments, or loans and receivables.

The exchange difference of the change in the book value of the available-for-sale

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monetary financial assets, the interest income from the available-for-sale financial assets calculated with the effective interest method, and the dividend income from the available-for-sale equity investment are recognized in profit or loss. The change in the book value of other financial assets is recognized in equity before such investment is de-recognized. When de-recognizing, the accumulated amount previously recognized in the equity is reclassified to the profit or loss.

For an equity instrument investment, if there is no market price available and the fair value cannot be reliably measured, it is measured at the net cost of impairment loss at the end of the reporting period and the financial assets measured at the cost are presented on the balance sheet.

Held-to-maturity financial assets

Non-derivative financial assets are classified as held-to-maturity financial assets if they have a fixed or determinable payment amount, and the Company has positive intentions and ability to hold it until its maturity date, except for the following items: Designated to be measured at fair value through profit or loss when recognized originally, designated for sale and in compliance with the definition of loans and receivables.

These financial assets, after the original measurement, are measured at the amortized cost with the effective interest method and net of the impairment loss. The calculation of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition. The amortization with the effective interest method applied is recognized in profit or loss.

Loans and accounts receivable

Loans and receivables are non-derivative financial assets without an available market price, but with a fixed or determinable amount, and are subject to the following conditions: not classified as measured at fair value through profit or loss, not designated for sale, and the holder did not face the possibility of being unable to recover almost all of the original investment due to factors other than credit deterioration.

These financial assets are separately stated in the balance sheet in terms of receivables and debt instrument investments without an available market price. After the original measurement, it is measured at the amortized cost with the effective interest method applied net of the impairment. The calculation of the amortized cost takes into account the discount or premium at the time of acquisition and the transaction cost. The amortization with the effective interest method applied is recognized in profit or loss.

(2) Impairment of Financial Assets

The accounting treatment since January 1, 2018 is as follows

For the debt instrument investments measured at fair value through other comprehensive income, debt instrument investments measured at amortized cost, and off-balance sheet debt instrument, the Company has them recognized as expected credit loss and with the allowance for loss measured. The debt instrument investment measured at fair value through other comprehensive income has the allowance for loss recognized in other comprehensive income. Also, the book value of the investment is not decreased. Loans and receivables and off-balance sheet credit assets are recognized

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and measured in accordance with the expected credit losses. Also, adequate allowances, guaranteed liability reserves, and financing commitment reserves are appropriated according to whichever is higher according to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans".

The Company measures expected credit losses to reflect the following:

- A. An amount that is unbiased and weighted by probability through evaluating each possible outcome
- B. Time value of money
- C. Reasonable and corroborative information (that can be obtained on the balance sheet date without excessive costs or inputs) relating to past events, current conditions, and future economic forecasts

The methods used for measuring allowance for loss are as follows:

- A. It is measured by the 12-month expected credit loss amount: Including the credit risk that has not increased significantly since the original recognition of the financial assets, or it is determined as low credit risk on the balance sheet date. In addition, it also includes the allowance for loss measured by the expected credit loss of the duration in the previous reporting period, but which no longer meets the condition that the credit risk has increased significantly since the original recognition on the balance sheet date.
- B. The expected credit loss amount for the duration: Includes the significant increase in credit risk of the financial assets since the original recognition, or the financial assets with credit impairment purchased or originated.
- C. For accounts receivable or contractual assets arising from transactions within the scope of IFRS 15, the Company measured the allowance for loss with the expected credit loss amount of the duration.

In addition to the aforementioned assessments, the Company also has the credit assets assessed and classified according to the following classification methods by referring to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". Regarding the classification methods, except for the normal credit assets classified in Category I, non-performing credit assets are evaluated according to the status of the loan collateral and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful" and Category V "Loss".

The allowance for bad debt is appropriated for a minimum amount equivalent to the total of 1% of net Class I credit assets of the obligation to Taiwanese government agencies, 2% of Class II credit assets, 10% of Class III credit assets, 50% of Class IV credit assets, and 100% of Class V credit assets.

On each balance sheet date, the Company assesses whether the credit risk of financial instruments after the original recognition has increased significantly by comparing the changes in the default risk of the financial instruments on the balance sheet date and the original recognition date. In addition, please refer to Note XII for information related to credit risk.

The accounting treatment before January 1, 2018 is as follows:

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Except for financial assets measured at fair value through profit or loss, other financial assets are measured for impairment at the end of each reporting period. When there is objective evidence that the future cash flow of the financial assets is damaged due to a single or multiple loss event occurring after the original recognition of the financial assets, the impairment of the financial asset has occurred. For the decrease in the book value of financial assets, except for the receivables to be adjusted down with the allowance account, the rest is directly deducted from the book value with the loss recognized in profit or loss.

If the fair value of an available-for-sale equity investment is less than the cost and a significant or permanent decline occurs, it is considered a loss.

Losses of other financial assets may include:

- A. Significant financial difficulties which occur to the issuer or counterparty; or
- B. Breach of contract, such as, delay or non-performing payment of interest or principal; or
- C. The debtor is likely to go bankrupt or initiate other financial restructuring; or
- D. The active market for financial assets disappeared due to the financial difficulties of the issuer.

For the held-to-maturity financial assets and loans and receivables that are measured at amortized cost by the Company, first of all, assess whether there is objective evidence of impairment occurring to significant individual financial assets, and insignificant individual financial assets are assessed collectively. If it is determined that the financial assets assessed individually lack objective evidence of impairment, regardless of their significance, any financial assets with similar credit risk characteristics are combined into one group for a collective assessment of impairment. If there is objective evidence of impairment loss, the measurement of the loss is determined by the difference amount between the book value of the asset and the present value of the estimated future cash flows. The estimated present value of the future cash flows is discounted at the original effective interest rate of the asset. However, if the loan has a floating rate, the discount rate adopted to measure the impairment loss is the current effective interest rate. Interest income is based on the reduced book value of the asset and is continuously estimated and booked at the cash flow discount rate that is used to calculate impairment loss.

Receivables and related allowances should be written off when the receivables are not expected to be collected in the future. In the subsequent years in which the impairment loss is recognized, if the estimated impairment loss increases or decreases as a result of an event, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. The recovery of the write-off amount is recognized in profit or loss.

For available-for-sale equity instruments, the impairment loss amount is measured according to the cumulative loss measured by the difference between the acquisition cost and the current fair value, net of the impairment loss previously recognized in profit or loss, and it is reclassified from equity to profit or loss. Impairment losses of equity investments are not reversed through profit or loss. The increase in fair value after impairment is recognized directly in equity.

For the available-for-sale debt instrument, the impairment loss amount is measured

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according to the cumulative loss measured by the difference between the amortized cost and the current fair value, and net of the impairment loss previously recognized in profit or loss. The future interest income is based on the book value of the reduced asset, and it is imputed according to the effective interest rate that is used to calculate the discounted cash flow of impairment loss. The interest income is recognized in profit or loss. If the fair value of the debt instrument increases in subsequent years and the increase is significantly related to the event occurring after the impairment loss is recognized, the impairment loss is reversed through profit or loss.

(3) Derecognized financial assets

Financial assets held by the Company are derecognized when one of the following conditions is met:

- A. The contractual right from the cash flow of financial assets is terminated.
- B. The financial asset has been transferred and almost all of the risks and rewards of asset ownership have been transferred to others.
- C. Almost all risks and rewards of asset ownerships have not been transferred or retained, but the control of assets has been transferred.

When a financial asset is derecognized entirely, the difference between the book value and the collected or collectible considerations plus any cumulative gain or loss recognized in other comprehensive gain or loss is recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liabilities or equity

The liability and equity instruments issued by the Company are classified as either financial liabilities or equity in accordance with the substance of the contractual agreements and the definition of financial liabilities and equity instruments.

Equity instruments

An equity instrument refers to any contract that recognizes the residual equity of the Company after the asset deducts the liabilities. The equity instruments issued by the Company are recognized at the amount obtained after deducting the direct issuance costs.

Compound instruments

The Company recognizes the financial liabilities and equity composition of the convertible corporate bonds issued according to its contractual terms. In addition, for the convertible corporate bonds issued, assess whether the economic characteristics and risks of the embedded call (put) option are closely related to the main debt instrument before distinguishing the equity elements.

For a liability that does not involve a derivative instrument, the fair value is assessed with the market interest rate of the equivalent and non-converting bond. Such liability before conversion or settlement is classified as a financial liability measured at the amortized cost. For the embedded derivative instrument (for example, the execution price of the embedded call (put) option cannot be equivalent to the amortized cost of

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the debt instrument on each execution date) that is not closely related to the economic characteristics of the principal contract, except for those classified as equity elements, it is classified as a liability and is measured at fair value through profit or loss in subsequent periods. The amount of the equity element is determined by the fair value of the convertible corporate bond net of the liability, and the book value will not be re-measured in the subsequent accounting period. If the issued convertible corporate bonds do not contain an equity element, they are handled in accordance with IFRS 9 (before January 1, 2018, IAS 39) hybrid financial instrument method.

The transaction costs are allocated to the liability and equity proportionally to the originally recognized convertible corporate bonds to the liability and equity elements.

When the holder of the convertible corporate bond requests to exercise the conversion right before the maturity date, the book value of the liability is first adjusted to the book value at the time of conversion, as the basis for the issuance of common stock shares.

Financial liabilities

Financial liabilities subject to the provisions of IFRS 9 (before January 1, 2018, IAS 39) are classified, at the original recognition, as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit and loss

Financial liabilities measured at fair value through profits or losses include held-for-trade financial liabilities and financial liabilities designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

- A. It is obtained mainly for the purpose of being sold in the short-term.
- B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
- C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivatives, an overall hybrid (combined) contract can be designated as a financial liability measured at fair value through profit or loss. When the relevant information is provided upon complying with one of the following factors, the original recognition is designated as measured at fair value through profit or loss:

- A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
- B. The financial assets, financial liabilities or both, according to a written risk management or investment strategy, are managed at fair value with the performance evaluated and the investment portfolio information provided to management within the consolidated company is also based on the fair value.

The benefits or losses arising from the re-measurement of such financial liabilities are

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recognized in profit or loss. The gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Before January 1, 2018, if there was no market price available for such financial liabilities and the fair value could not be reliably measured, the financial liabilities should be measured at cost at the end of the reporting period and presented at cost in the balance sheet.

Financial liabilities measured at the amortized cost

Financial liabilities measured at the amortized cost, including payables and borrowings, are subsequently measured using the effective interest method after the original recognition. When a financial liability is derecognized and amortized through the effective interest method, its related profit or loss and amortization are recognized in profit or loss.

The calculation of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition.

De-recognition of financial liabilities

When the obligation of a financial liability is discharged, canceled, or invalidated, the financial liability is derecognized.

When the Company and the creditors exchange opinions on a debt instrument with significant differences, or make major changes to all or part of the existing financial liabilities clauses (whether due to financial difficulties or not), it is handled by having the original liabilities derecognized and new liabilities recognized. When financial liabilities are derecognized, the difference between the book value and the total amount (including the transferred non-cash assets or liabilities assumed) of the considerations paid or payable is recognized in profit or loss.

(5) Financial assets and liabilities written-off against each other

Financial assets and financial liabilities can only be offset and presented with the net amount on the balance sheet only when the recognized amounts can be offset currently by law and are intended to be cleared on a net amount or having assets sold for cash and liability liquidated simultaneously.

8. Derivatives

Derivatives held or issued by the Company are used to hedge exchange rate risk and interest rate risk, of which, the designated and effective hedging items are reported as hedging derivative assets or liabilities on the balance sheet. For those not designated but effective hedging, they are presented on the balance sheet as financial assets or financial liabilities measured at fair value through profit or loss.

The original recognition of a derivative is measured at the fair value on the derivative contract date and it is also measured at fair value subsequently. When the fair value of a derivative is positive, it is a financial asset. When the fair value of a derivative is negative, it is a financial liability. Changes in the fair value of derivatives are recognized directly in

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profit or loss, except for cash flow with effective hedging and net operating investment of foreign operating entities with effective hedging directly recognized in the equity.

Before January 1, 2018, when the economic characteristics and risks of derivative instruments embedded in the main contract were not closely related to the main contract, and the main contract was not held for trading or designated to be measured at fair value through profit or loss, this embedded derivative should be treated as a separate derivative. However, since January 1, 2018, the aforementioned provisions are applicable to the main contract of financial liabilities or non-financial assets.

9. Fair value measurement

Fair value is the price that would be collected for the assets sold or the price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. Fair value measurement is with an assumption that the sale of the asset or the transfer of the liability occurs in one of the following markets:

- (1) The main market for the asset or liability, or
- (2) If there is no major market, the most favorable market for the asset or liability;

The primary or most favorable market must be available for the Company to conduct trades.

The fair value measurement of an asset or liability is based on the assumption that the market participants used in pricing the assets or liabilities, assuming that such market participants will use the assumption the most economically practical way.

The fair value measurement of a non-financial asset takes into account the market participant's use of the asset for its highest and best utilization or sale of the asset to another market participant who will use the asset for its highest and best utilization in order to generate economic benefits.

The Company uses valuation techniques that are appropriate with sufficient data available in the relevant circumstances to measure fair value and maximize the use of observable inputs and minimize the use of unobservable inputs.

10. Impairment of non-financial assets

The Company at the end of each reporting period assesses whether all assets subject to IAS 36 "Impairment of Assets" are showing signs of impairment. If there is any indication of impairment or an impairment test is required for an asset on a regular basis each year, the Company tests the individual asset or the cash-generating unit to which the asset belongs. If the book value of an asset or the cash-generating unit to which the asset belongs is greater than the recoverable amount in an impairment test, the impairment loss is recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of each reporting period, the Company assesses assets other than goodwill to see whether there are indications that the previously recognized impairment losses may no longer exist or may be decreased. In the event of such an indication, the Company estimates the recoverable amount of the asset or cash-generating unit. If the recoverable amount is increased due to the change in the estimated service potential of the asset, the impairment amount is reversed. However, the reversed book value shall not exceed the book value before recognizing impairment loss and after deducting depreciation or amortization.

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The impairment loss and reversal amount of the continuing business unit are recognized in profit or loss.

11. Collateral accepted

The accepted collateral is booked at the cost of acceptance. Also, it is valued at the end of the period at the lower of cost or fair value net of selling cost (net realizable value).

12. Investments under the equity method

The Company's investment in subsidiaries is based on the provisions of Article 21 of "Regulations Governing the Preparation of Financial Reports by Securities Issuers", expressed and made necessary evaluation adjustments by "Investments under the equity method", that the profit or loss during the period and other comprehensive income presented in parent company only financial reports shall be the same as the allocations of profit or loss during the period and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. These adjustments are mainly based on the differences between the investment subsidiaries in the consolidated financial statements in accordance with IAS 27 "Consolidated Financial Statements" and the different reporting standards applicable to the IFRS, and debit or credit "Investments under the equity method", "The share of other consolidated profit or loss of subsidiaries, affiliates and joint venture using the equity method"

The Company's investment in affiliate is treated by the equity method, except for the assets to be sold. Affiliated company refers to the company that has significant influence on it.

Under the equity method, the investment affiliates are accounted for on the balance sheet, which is the amount recognized by the Company for the change in the net assets of the related company based on the shareholding ratio. The carrying amount of the affiliate investment and other related long-term equity are reduced to zero after the adoption of the equity method, and the additional losses and liabilities are recognized within the scope of the legal obligation, the derivative obligation or the payment of the affiliated company. The unrealized gains and losses arising from the transactions between the Company and its subsidiaries are eliminated by the proportion of its equity to affiliated companies.

When the change in the equity of the affiliated company is not due to profit or loss and other comprehensive profit or loss items and does not affect the Company's shareholding ratio, the Company recognizes the change in the relevant ownership interest based on the shareholding ratio. Therefore, the recognized capital reserve is transferred to profit or loss according to the proportion of discretion when it subsequently disposes of the affiliated company.

When affiliated companies issue new shares, the company has not investment in the proportion of its shareholding ratio, resulting in a change in the proportion of investment. Therefore, the increase or decrease in the net assets held by the Company for the affiliated companies is adjusted by the "capital reserve" and the "Investments under the equity method". When the change in the proportion of investment is reduced, the related items previously recognized in other comprehensive profit or loss are reclassified to profit or loss

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or other appropriate account titles. The capital reserve recognized in the above is transferred to profit or loss on a pro rata basis when the subsidiaries are subsequently disposed.

The financial statements of the subsidiaries are prepared for the same reporting period as the company and adjusted to align their accounting policies with the Company's accounting policies.

The Company at the end of each reporting period assesses whether there is objective evidence that the investment in the subsidiaries has been impaired in accordance with the IAS 28 "Investments in Associates and Joint Ventures" (IAS 39 was adopted before January 1, 2018). If there is any indication of impairment, the Company calculates the impairment amount based on the difference between the recoverable amount of the subsidiaries and the carrying amount in accordance with IAS 36 "Impairment of Assets" and recognizes the amount in the profit and loss of the subsidiaries. If the aforesaid recoverable amount adopts the use value of the investment, the company determines the relevant use value based on the following estimates:

- (1) The share of the present value of the cash generated from the estimated future cash generated by the subsidiaries, including the cash flow generated by the subsidiaries due to the operation and the final disposal of the investment; or
- (2) The Company expects the dividend to be received from the investment and the final value of the estimated future cash flow generated from the investment.

The goodwill component of the book value of the subsidiaries is not separately recognized, so it is not necessary to apply the provisions of IAS 36 "Impairment of Assets" goodwill impairment test.

When a significant impact on the subsidiaries is lost, the company measures and recognizes the portion of the investment retained at fair value. When the significant difference is lost, the difference between the carrying amount of the subsidiaries and the fair value of the retained investment plus the disposal price is recognized as profit or loss.

13. Property and equipment

Property and equipment are recognized at the acquisition net cost of accumulated depreciation and accumulated impairment. The aforementioned cost includes the cost of dismantling, removing, and restoring the location of the real estate and equipment and the necessary interest expense arising from the construction in progress. Depreciation is provided separately for the significant parts of the real estate and equipment. When major parts of property and equipment are subject to periodic replacement, the Company treats the parts as an individual asset and recognizes it separately with specific periods of durability and depreciation method. The book value of these replaced parts is derecognized in accordance with the provision of IAS 16 "Property, Plant, and Equipment". If the major repair and maintenance costs are in compliance with the recognition conditions, they are recognized as replacement costs and are recognized as part of the real estate and equipment book value. Other repair and maintenance expenses are recognized in profit or loss.

Depreciation is computed in accordance with the straight-line method over the estimated useful lives of the following assets:

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Buildings and structures	3 ~60 years
Transport equipment	3 ~5 years
Other equipment	3 ~10 years

After the original recognition of the real estate and equipment or any significant parts, if it is disposed or no economic effect arising from the use or disposal is expected, it will be derecognized and recognized in profit or loss.

The residual value, years of useful life, and depreciation method of the real estate and equipment are assessed at the end of each financial year. If the expected value is different from the previous estimate, the change is considered as a change in accounting estimates.

14. Employee benefits

(1) Retirement benefits plan

The retirement method for employees of the Company is applicable to all full-time employees. The employee retirement fund is fully appropriated to the Labor Pension Reserves Committee and deposited in the pension fund account. The aforementioned pension is deposited in the name of the Labor Pension Reserves Committee, which is completely separated from the Company, so it is not included in the financial statements in the preceding paragraph.

For the defined contribution pension plan, the monthly pension payable rate of the Company shall not be less than 6% of the employee's monthly salary, and the amount of the provision shall be recognized in the profit or loss of the current period.

For the defined contribution pension plan, an appropriation is made according to the project unit credit method and the actuarial report at the end of the annual reporting period. The re-measurement of net defined benefit liabilities (assets) includes the return on the plan asset and changes in the ceiling of the assets, deducting the net interest amount of the net defined benefit liabilities (assets) and the actuarial gains and losses. The net defined benefit liability (asset) re-measurement is included in other comprehensive income when incurred and immediately recognized in the retained earnings.

The prior-period service cost is the change in the present value of the defined benefit obligation arising from the revision or reduction of the pension plan and is recognized as an expense on the earlier of the following two dates:

- A. When the plan revision or reduction occurs; and
- B. When the Company recognizes the relevant restructuring costs or resignation benefits;

The net interest of the net defined benefit liability (asset) is determined by having the net defined benefit liability (assets) multiplied by the discount rate, both of which are determined at the beginning of the annual reporting period, and then consider the changes which have occurred in the net defined benefit liabilities (assets) for the period arising from the appropriation amount and benefit payment.

(2) Employees preferential deposit benefit

The Company provides preferential deposits, which include the payment of fixed

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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preferential deposits for current employees and for retired employees (before January 1, 2010). The difference between the interest rate of these preferential deposits and the market interest rate is within the scope of employee benefits.

According to Article 28 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the excess interest arising from the retirement preferential deposit rate agreed upon with the employees over the general market interest rate shall be actuarially calculated according to the defined benefit plan as stipulated in IAS 19 that was approved by the Financial Supervisory Commission. However, the parameters of actuarial assumptions shall be handled in accordance with the provisions of the competent authority if it is available.

15. Treasury stock

When the Company obtains the shares (Treasury Stocks) of the company, it is recognized at the acquisition cost and is debited to the equity. The spread of treasury stock transactions is recognized in the equity.

16. Recognition of revenue

(1) Interest income from loans is estimated on an accrual basis. The overdue payment transferred to the collection account will cease to bear interest from the date of transfer and will be recognized as income upon collection. The interest income agreed to be posted as receivable due to the bail-out and the extension agreement is recognized as income upon collection.

(2) Service charge income is a fee charged for the various services provided to customers. The accounting treatment is as follows:

The accounting treatment starting from January 1, 2018 is as follows:

The service charge income of the Company is derived from the services provided at a specific point of time or for a certain period of time, or through the transaction services and it is recognized as income. When there is a transfer of services to the customer but without unconditional rights for collecting considerations, it is recognized as a contract asset. However, for some contracts, partial considerations are collected from the customers at the time of signing the contract, the Company must assume the obligation of providing services subsequently. Therefore, it is recognized as a contract liability.

The aforementioned contractual liabilities of the Company did not result in significant financial fluctuations.

The accounting treatment before January 1, 2018 is as follows:

Service charge income is generally recognized on the accrual basis and is recognized during the period in which the labor service is provided. The service fee earned on the execution of a major project is recognized at the time of completion, such as, the service fee received by the organizing bank of a syndicate loan. The service charge and expense associated with subsequent loan services is recognized according to the amortization over the period of service or included in the calculation of the effective interest rate of loans and receivables.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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17. Share-based payment transaction

The “share-based payment” transaction cost for the equity clearing between the Company and its employees is measured at the fair value on the equity instruments vested date. Fair value is measured by the appropriate pricing model.

The “share-based payment” transaction cost for the equity clearing is recognized on a period-by-period basis during the period in which the service conditions and performance conditions are fulfilled, and the increase in equity is recognized. The cumulative fees recognized for equity clearing transactions at the end of each reporting period prior to the vesting date reflect the process of the vested period and the best estimate of the ultimate vested equity instruments by the Company. The cumulative cost changes recognized for the share-based payment transactions at the beginning and end of each reporting period are recognized in profit or loss for the period.

If the share-based payment is not in compliance with the vested conditions, no expense will be recognized. However, if the vested conditions of the equity clearing transaction are related to the market price condition or the non-vested conditions, when all the service or performance conditions have been fulfilled, the relevant expenses will be recognized regardless of whether the market price condition or the non-vested condition is fulfilled.

18. Income tax

Income tax expense (profit) refers to the aggregated amount of current income tax and deferred income tax that is included in the current profit or loss.

Income tax expenses in the current period

The current income tax liabilities (assets) related to the current and prior periods are measured at the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The current income tax related to the items recognized in other comprehensive income or directly recognized in the equity is recognized in other comprehensive income or equity instead of being recognized in the profit or loss

The additional business income tax levied on the undistributed earnings is recognized as income tax expense on the date when the distribution of earnings is resolved in the shareholders meeting.

Deferred tax

The deferred income tax is calculated according to the temporary difference between the taxable amount of assets and liabilities and the book value on the balance sheet at the end of the reporting period.

All taxable temporary differences are recognized as deferred income tax liabilities except for the following two items:

- (1) The original recognition of goodwill, or the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted;
- (2) The taxable temporary difference arising from the investment in subsidiaries, associates,

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

and joint equity. Also, the timing of reversal is controllable, and it is not likely to be reversed in the foreseeable future;

Except for the following two items, deductible temporary difference and deferred income tax assets arising from the taxable losses and income tax credit are recognized within the range of probable future taxable income:

- (1) It is related to the deductible temporary difference from the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted.
- (2) It is related to the deductible temporary differences arising from the investment in subsidiaries, associates, and the joint equity. It is recognized within the range of probable reversal in the foreseeable future and there is sufficient taxable income at the time the temporary difference occurred.

Deferred income tax assets and liabilities are measured at the tax rate of the expected asset realization or in the period in which the liability is settled. The tax rate is based on the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the tax consequences arising from the manner in which the asset is expected to be recovered or the book value of the liability is settled at the end of the reporting period. If the deferred income tax is related to items that are not included in the profit or loss, it will not be recognized in profit or loss, but recognized in other comprehensive income according to the relevant transactions or directly recognized in equity. Deferred income tax assets are re-examined and recognized at the end of each reporting period.

Deferred income tax assets and liabilities can be offset against each other legally only in the current period, and the deferred income tax is related to the same taxation entity and is related to the income tax levied by the same taxation authority.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

When the financial statements are prepared by the Company, the management must make judgments, estimates, and assumptions at the end of the reporting period, which will affect the disclosure of income, expenses, assets and liabilities, and contingent liabilities. However, the uncertainty of these significant assumptions and estimates may result in a significant adjustment to the book value of an asset or liability in the future period.

Estimation and assumption

The main source of information on the estimation and assumption with uncertainty at the end of the reporting period has significant risks that result in significant adjustments to the book value of assets and liabilities in the next financial year. The explanations are given as follows:

(1) Loan impairment loss

Since January 1, 2018

The Company's estimated impairment loss of loans is measured by the expected credit

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

loss amount for a period of 12 months and for the duration of the period. The present value of the difference between the contractual cash flow (book value) receivable and the expected cash flow (assessment of forward-looking information) is the credit loss. However, the discount effect of short-term loans and receivables is insignificant. Therefore, the credit loss is measured by the undiscounted spread amount. If the actual cash flow in the future is less than expected, significant impairment losses may occur. Please refer to Note VI.

Before January 1, 2018

The Company regularly reviews the loan portfolio to assess impairment. The Company bases the recognition of impairment mainly on whether there is any observable evidence of impairment occurring. This evidence may include observable information indicating adverse changes in the debtor's payment status, or national or local economic conditions associated with debt defaults. When analyzing expected cash flows, the management makes estimates according to the loss records of the assets with similar credit risk characteristics. The Company regularly reviews the methods and assumptions of the expected cash flow amount and timing to reduce the difference between the estimated and actual losses.

(2) The fair value of financial instruments

When the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from the active market, the fair value will be determined using evaluation techniques, including the income approach (such as, cash flow discount model) or market approach. The changes in the assumptions of the said approaches will affect the fair value of the financial instruments reported. Please refer to Note XII.

(3) Retirement benefits plan

The present value of the defined benefit cost and the defined benefit obligations depends on the actuarial valuation. Actuarial valuation involves various assumptions, including: discount rate and changes in expected salary.

(4) Income tax

The uncertainty of income tax exists in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to a wide range of international business relationships and the long-term and complexity of contracts, the differences between actual results and assumptions made, or changes in such assumptions in the future, may cause the booked income tax benefits and expenses to be adjusted in the future. The appropriation of income tax is a reasonable estimation made according to the possible audit results of the local tax authorities of the countries in which the Company operates. The amount appropriated is based on different factors, such as: previous tax audit experience and the difference in tax law interpretation between the tax entity and the tax authority. The difference in interpretation may result in a variety of issues due to the local situation of the country where an individual enterprise of the Company operates.

The carryforwards of the taxable loss and income tax credit and deductible temporary differences are recognized as deferred income tax assets within the range of probable future taxable income or taxable temporary differences. The amount of the deferred

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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income tax assets to be recognized is estimated according to the possible timing and level of the future taxable income and taxable temporary difference, and also, the future tax planning strategy.

VI. Summary of significant accounting titles

1. Cash and cash equivalents

	2018.12.31	2017.12.31
Cash on hand	\$1,366,431	\$1,283,439
Foreign currency on hand	230,888	207,590
Notes and checks for clearing	1,565,553	1,572,749
Due to Central Bank and other banks	1,156,198	1,339,546
Total	<u>\$4,319,070</u>	<u>\$4,403,324</u>

For the purpose of preparing the cash flow statement, cash and cash equivalents are the sum of the following items.

	2018.12.31	2017.12.31
Cash and cash equivalents on the balance sheet	\$4,319,070	\$4,403,324
The "Due from the Central Bank and call loans to banks" that meet the definitions of IAS 7 "Definition of Cash and cash equivalents" approved by the FSC	8,530,162	9,513,467
The "Bonds and securities sold under re-purchase agreements" comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	624,167	2,565,772
Cash and cash equivalents on the Statement of Cash Flow	<u>\$13,473,399</u>	<u>\$16,482,563</u>

2. Due from Central Bank and lend to Banks

	2018.12.31	2017.12.31
Reserve for deposits –demand account	\$2,939,644	\$3,833,087
Reserve for deposits –checking account	5,314,596	5,021,676
Reserve for deposits –Foreign currency	17,518	17,013
Call loans to banks	5,573,000	5,663,367
Total	<u>\$13,844,758</u>	<u>\$14,535,143</u>

The deposit reserve is calculated according to the monthly legal reserve appropriated for each type of deposit by law, the average daily amount and legal reserve ratio for the current period. Also, it is deposited with the Central Bank. Type A deposit reserve accounts and foreign currency depositor accounts do not bear interest and can be accessed at any time. Type B accounts bear interest, but they cannot be used except in compliance with the regulations.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

3. Financial assets at fair value through profit and loss

	2018.12.31	2017.12.31 (Notes)
Mandatorily measured at fair value through profit or loss:		
Stock	\$4,257,240	
Equity securities	2,368,012	
Domestic bond	24,111,160	
Derivatives	39,017	
Convertible corporate bonds	323,902	
Real estate investment trust fund	360,177	
Total	\$31,459,508	
	2018.12.31 (Notes)	2017.12.31
Held-for-trade:		
Stock		\$3,201,462
Equity securities		450,010
Domestic bond		17,603,936
Derivatives		22,191
Subtotal		21,277,599
Financial assets measured at fair value through profit or loss at the time of original recognition		
Convertible corporate bonds		329,256
Total		\$21,606,855

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note VIII for details of the financial assets provided as collateral that the Company has them measured at fair value through profit or loss.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

4. Financial assets at fair value through other comprehensive profit or loss

	2018.12.31	2017.12.31 (Notes)
Debt instrument investments measured at fair value through other comprehensive income:		
Bonds	\$15,622,987	
Corporate bond	33,660,910	
Financial bonds	4,264,717	
Subtotal (total book value)	53,548,614	
Evaluation adjustment	(952,250)	
Subtotal	52,596,364	
Equity instrument investments measured at fair value through other comprehensive income:		
Listed stocks	93,960	
Non-TWSE/GTSM-listing companies stock	722,442	
Subtotal	816,402	
Total	\$53,412,766	

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note VIII for details of the financial assets provided as collateral that the Company has them measured at fair value through other comprehensive income.

Please refer to Note VI for information on allowance for loss for the debt instrument investments measured at fair value through other comprehensive income. Also, please refer to Note XIV for information related to credit risk.

For the Company's investment in financial assets and equity instruments that was measured at fair value through other comprehensive income, dividend income for an amount of NT\$33,744 thousand was recognized in the period from January 1 to December 31, 2018, which was entirely related to the investments still held on the balance sheet date.

The Company's investment in financial assets and equity measured at fair value through other comprehensive income was disposed in the period from January 1 to December 31, 2018, the fair value at the time of disposition was NT\$698,266 thousand. Also, the accumulated unrealized loss in valuation at the time of disposal for an amount of NT\$7,860 thousand was transferred from other equity to retained earnings.

5. Financial assets based on cost after amortization

	2018.12.31	2017.12.31 (Notes)
Convertible certificate of deposit (total book value)	\$17,600,000	
Less: Allowance for losses	(2,004)	
Total	\$17,597,996	

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The Company classifies certain financial assets into financial assets measured at amortized cost. Please refer to Note VI for the information provided on allowances for loss. Also, refer to Note XIV for information related to credit risk and it is not provided as collateral.

6. Bonds and securities sold under repurchase agreements

	2018.12.31	2017.12.31
Bonds	<u>\$624,167</u>	<u>\$2,565,772</u>

The Company's RS bill and bond transactions were for an amount of NT\$624,260 thousand and NT\$2,566,077 thousand on December 31, 2018 and 2017, respectively.

7. Receivable- net

	2018.12.31	2017.12.31
Accounts receivable and notes	\$4,926	\$8,262
Interests receivable	1,038,824	972,483
Other receivables	19,073	20,755
Subtotal (total book value)	<u>1,062,823</u>	<u>1,001,500</u>
Less: Allowance for losses	<u>(34,687)</u>	<u>(51,435)</u>
Net	<u>\$1,028,136</u>	<u>\$950,065</u>

The Company has adopted IFRS 9 "Financial Instruments" since January 1, 2018 to assess impairments. Please refer to Note XIV for details of the allowance for loss in current year. International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" was adopted before January 1, 2018 to assess impairments. As of December 31, 2017, the changes in the bad debt appropriated for the impairment of receivables is analyzed as follows:

	2017
Balance, beginning	<u>\$38,688</u>
Amount appropriated for the current period	2,613
Write-off amount	(640)
Recovery of write-off amount	10,774
Balance, ending	<u>\$51,435</u>

8. Discounts and loans, net

	2018.12.31	2017.12.31
Overdraft	\$74,653	\$58,592
Loans	154,496,563	145,098,609
Collections of overdue loans	25,759	28,395
Total amount	<u>154,596,975</u>	<u>145,185,596</u>
Less: allowance for bad debt	<u>(2,367,223)</u>	<u>(2,237,731)</u>
Net	<u>\$152,229,752</u>	<u>\$142,947,865</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

- (1) Please refer to Note XIV for the assessment of the Company's impairment of discounts, loans, and receivables in the period from January 1 to December 31, 2018.
- (2) The Company has adopted IFRS 9 "Financial Instruments" since January 1, 2018 to assess impairments. Please refer to Note XIV for details of the allowance for loss in current year. IAS 39 "Financial Instruments: Recognition and Measurement" was adopted before January 1, 2018 to assess impairments. As of December 31, 2017, the changes in the discount and allowance for bad debt of the Company is as follows (please refer to Note XIV for the credit risk disclosure in details):

	2017
Balance, beginning	\$2,020,314
Amount appropriated (reversed) for the period	612,378
Write-off amount	(598,502)
Recovery of write-off amount	209,483
Foreign exchange impact amount	(5,942)
Balance, ending	<u>\$2,237,731</u>

9. Available-for-Sale Financial Assets

	2018.12.31 (Notes)	2017.12.31
Stock		\$1,435,061
Bonds		20,001,161
Corporate bond		31,417,157
Equity securities		19,601
Beneficiary certificate		321,154
Financial bonds		5,529,512
Total		<u>58,723,646</u>
Less: accumulated impairment		-
Net		<u>\$58,723,646</u>

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note VIII for the available-for-sale financial assets classified according to IAS 39 before January 1, 2018 that were provided as collateral by the Company.

10. Held-to-maturity financial assets

	2018.12.31 (Notes)	2017.12.31
Convertible certificate of deposit		<u>\$17,600,000</u>

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The Company classified certain financial assets into held-to-maturity financial assets, which was not provided as collateral in accordance with IAS 39 before January 1, 2018.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

11. Investments under the equity method

	2018.12.31		2017.12.31	
	Amount	Stake(%)	Amount	Stake(%)
Subsidiaries:				
Tainan Life Insurance Agent Co., Ltd.	\$363,699	100.00	\$470,751	100.00
Fu Chen Property Insurance Agent Co., Ltd.	6,197	100.00	5,851	100.00
KTB International Leasing Co., Ltd.	618,747	100.00	589,959	100.00
Total	<u>\$988,643</u>		<u>\$1,066,561</u>	

(1) The share of investment gains and losses of subsidiaries using the equity method in 2018 and 2017 were \$239,111 and \$363,822, respectively.

(2) In order to integrate resources and reduce operating costs, the resolution of board of directors on June 6, 2016 decided to merge with Tainan Life Insurance Agent Co., Ltd. and Fu Chen Property Insurance Agent Co., Ltd. Actual merger record date shall be determined upon receipt of approval from the competent authorities.

12. Other financial assets – net

	2018.12.31	2017.12.31
Equity investment measured at cost	\$(Notes)	\$207,313
Non-delinquent loans restated from loans	3,968	-
Others	2,037	1,356
Subtotal (total book value)	6,005	208,669
Less: Allowance for losses	(1,300)	-
Total	<u>\$4,705</u>	<u>\$208,669</u>

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The aforementioned unlisted (non-OTC) stock investment held by the Company was subject to the provisions of IAS 39 before January 1, 2018. Since the reasonable range of its fair value is significant and the probability of each estimate cannot be reasonably evaluated, it cannot be measured at fair value, but at the cost.

The Company's financial assets measured at cost are not provided as collateral.

IAS 39 "Financial Instruments: Recognition and Measurement" was adopted before January 1, 2018 to assess impairments. As of December 31, 2017, the changes in the allowance for bad debt for the collections transferred from non-loans of the Company is as follows:

	2017
Balance, beginning	\$-
Amount appropriated (reversed) for the period	4,886
Write-off bad debts	(4,886)
Balance, ending	<u>\$-</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

13. Liability instrument investments for which no active market exists

	2018.12.31 (Notes)	2017.12.31
Corporate bond		\$1,980,968

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

The Company classified certain financial assets into debt instrument investment without an available market price in accordance with IAS 39 before January 1, 2018. Please refer to Note VIII for its being provided as collateral.

14. Property and equipment

	Land	Buildings and structures	Transport equipment	Other equipment	Uncompleted construction	Total
Cost:						
2018.01.01	\$2,015,003	\$1,191,501	\$17,708	\$148,109	\$6,907	\$3,379,228
Additions	-	1,273	-	28,571	14,667	44,511
Disposition	-	(39,837)	-	(13,457)	-	(53,294)
Other changes	-	16,798	-	-	(16,798)	-
2018.12.31	\$2,015,003	\$1,169,735	\$17,708	\$163,223	\$4,776	\$3,370,445
2017.01.01	\$2,017,140	\$1,266,887	\$18,150	\$131,396	\$160	\$3,433,733
Additions	-	6,794	5,661	22,115	6,747	41,317
Disposition	(13,346)	(84,063)	(6,103)	(5,402)	-	(108,914)
Other changes	11,209	1,883	-	-	-	13,092
2017.12.31	\$2,015,003	\$1,191,501	\$17,708	\$148,109	\$6,907	\$3,379,228
Depreciation and impairment:						
2018.01.01	\$11,209	\$859,657	\$10,001	\$105,969	\$-	\$986,836
Depreciation	-	20,670	2,844	26,139	-	49,653
Disposition	-	(39,836)	-	(13,289)	-	(53,125)
Other changes	-	(417)	-	-	-	(417)
2018.12.31	\$11,209	\$840,074	\$12,845	\$118,819	\$-	\$982,947
2017.01.01	\$-	\$875,640	\$12,497	\$84,227	\$-	\$972,364
Depreciation	-	20,414	3,454	27,086	-	50,954
Impairment	-	15,213	-	-	-	15,213
Disposition	-	(53,493)	(5,950)	(5,344)	-	(64,787)
Other changes	11,209	1,883	-	-	-	13,092
2017.12.31	\$11,209	\$859,657	\$10,001	\$105,969	\$-	\$986,836
Net book value:						
2018.12.31	\$2,003,794	\$329,661	\$4,863	\$44,404	\$4,776	\$2,387,498
2017.12.31	\$2,003,794	\$331,844	\$7,707	\$42,140	\$6,907	\$2,392,392

The Company did not provide property and equipment as collateral.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

15. Other assets – net

	2018.12.31	2017.12.31
Prepayments	\$7,415	\$16,077
Inter-bank clearing fund	602,655	609,829
Refundable deposits	230,569	96,187
Others	29,659	23,685
Net	<u>\$870,298</u>	<u>\$745,778</u>

As of December 31, 2018 and 2017, the other asset – other accumulated impairment amounted to NT\$20,280 thousand.

16. Due to Central Bank and other banks

	2018.12.31	2017.12.31
Deposits of other banks	\$71	\$196
Call loans to banks	19,937,180	22,269,232
Total	<u>\$19,937,251</u>	<u>\$22,269,428</u>

17. Funds borrowed from Central Bank and other banks

	2018.12.31	2017.12.31
Funds borrowed from banks	<u>\$2,458,640</u>	<u>\$4,775,680</u>

18. Financial liabilities at fair value through profit and loss

	2018.12.31	2017.12.31
Available-for-sale financial liabilities:		
Derivatives	<u>\$25,784</u>	<u>\$127,902</u>

19. Bills and bonds sold under repurchase agreements

	2018.12.31	2017.12.31
Bonds	\$8,579,875	\$6,419,000
Corporate bond	19,992,978	13,411,373
Bank debentures	743,643	1,529,432
Total	<u>\$29,316,496</u>	<u>\$21,359,805</u>

The Company's RP bill and bond transactions were for an amount of NT\$29,388,277 thousand and NT\$21,391,946 thousand on December 31, 2018 and 2017, respectively.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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20. Payables

	2018.12.31	2017.12.31
Accrued expenses	\$256,086	\$358,450
Interest payable	155,423	128,546
Notes and checks in clearing	1,565,553	1,572,749
Clearing amount payable	-	51,566
Others	322,384	308,155
Total	<u>\$2,299,446</u>	<u>\$2,419,466</u>

21. Deposits and remittances

	2018.12.31	2017.12.31
Check deposits	\$2,334,725	\$2,383,701
Current deposits	35,574,489	29,330,390
Time deposits	24,594,454	24,055,876
Savings deposit	126,173,193	124,944,505
Remittances	439	5,509
Total	<u>\$188,677,300</u>	<u>\$180,719,981</u>

22. Liability reserve

	2018.12.31	2017.12.31
Retirement benefits plan	\$292,615	\$327,226
Reserve for guarantee liability	105,994	146,533
Provision for commitment of financing	21,818	-
Total	<u>\$420,427</u>	<u>\$473,759</u>

The changes in the guarantee reserve are as follows:

	2018	2017
Balance – beginning (in accordance with IAS 39)	\$146,533	\$126,960
Adjustments to retained earnings - beginning	-	-
Balance – beginning (in accordance with IFRS 9)	146,533	126,960
Amount appropriated (reversed) for the period	(40,562)	19,620
Foreign exchange impact amount	23	(47)
Balance, ending	<u>\$105,994</u>	<u>\$146,533</u>

The changes in the financing commitment reserve are as follows:

	2018	2017 (Note)
Balance – beginning (in accordance with IAS 39)	\$-	
Adjustments to retained earnings - beginning	33,318	
Balance – beginning (in accordance with IFRS 9)	33,318	
Amount appropriated (reversed) for the period	(11,500)	
Foreign exchange impact amount	-	
Balance, ending	<u>\$21,818</u>	

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Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

23. Retirement benefits plan

Defined contribution pension plan

The Company has the employee retirement plan stipulated in accordance with the "Labor Pension Act", which is a defined contribution plan. According to the Labor Pension Act, the monthly pension contribution rate of the Company shall not be less than 6% of the employee's monthly salary. The Company has an amount equivalent to 6% of the employee's monthly salary appropriated every month to the personal pension account with the Bureau of Labor Insurance.

The Company had recognized the insurance expense of the defined contribution plan for an amount of NT\$31,855 thousand and NT\$31,281 thousand in 2018 and 2017, respectively.

Defined benefit plan

The employee pension plan stipulated by the Company according to the Labor Standards Act is a defined benefit plan. The employee's pension payment is based on the service points and the average monthly salary at the time of retirement. Two service points for each service year within the first 15 service years (inclusive) and one service point for each service year after the 15th service year with a maximum of 45 service points for each employee. The Company levied a pension fund on the total monthly salary every month according to the Labor Standards Law. The pension appropriation ratio has been changed from 8% to 15% since March 2012, and the fund is deposited in the designated account with the Company of Taiwan in the name of the Labor Pension Reserves Committee. In addition, the Company estimates the aforementioned labor retirement reserve account balance before the end of each year. If the balance is insufficient to pay the pension amount calculated in accordance with the aforementioned retirement conditions for the employees qualified for retirement in the next year, the amount of difference will be appropriated in a lump sum before the end of March in the next year.

The Ministry of Labor conducts asset allocation in accordance with the "Regulations for Revenues, Expenditures, Safeguarding, and Utilization of the Labor Retirement Fund". Fund investment is arranged with a self-operated and entrusted management method, which adopts a mid-term and long-term investment strategy with an active and passive management. Considering the risks of the market, credit, liquidity, etc., the Ministry of Labor sets the fund risk limit and control plan so that it can be flexible enough to achieve the target remuneration without bearing excessive risk. For the use of the fund, the minimum income of its annual settlement shall not be lower than the income calculated according to the local bank's two-year time deposit. If there is any deficiency, it shall be replenished by the state treasury upon approval by the competent authority. As the Company is not entitled to participate in the operation and management of the fund, it is not possible to disclose the classification of the fair value of the plan assets in accordance with paragraph 142 of IAS 19. As of December 31, 2018, the Company's defined benefit plan is expected to have an amount of NT\$ 39,018 thousand appropriated in the next year.

As of December 31, 2018 and 2017, the Company's defined benefit plans are expected to

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

mature in 2027 and 2026.

The cost of the defined benefit plan recognized in profit or loss is summarized as follows:

	2018	2017
Current service cost	\$2,055	\$2,916
Net interest of the net defined benefit liabilities	5,269	7,092
Expected return on plan assets	(2,191)	(2,791)
Total	<u>\$5,133</u>	<u>\$7,217</u>

The adjustments made to the present value of the defined benefit obligation and the fair value of the plan assets are as follows:

	2018.12.31	2017.12.31
Determined benefit obligation	\$541,147	\$557,055
The fair value of plan assets	(248,532)	(229,829)
Liability reserve - Net defined benefit liabilities amount booked	<u>\$292,615</u>	<u>\$327,226</u>

Adjustments of net defined benefit liabilities (assets):

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit liabilities (assets)
2017.01.01	\$579,034	\$(214,229)	\$364,805
Current service cost	2,916	-	2,916
Interest expenses (income)	7,092	(2,791)	4,301
Subtotal	589,042	(217,020)	372,022
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	7,451	-	7,451
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(79)	(79)
Subtotal	7,451	(79)	7,372
Payment of benefits	(39,438)	30,161	(9,277)
Contributions of employer	-	(42,891)	(42,891)
2017.12.31	\$557,055	\$(229,829)	\$327,226
Current service cost	2,055	-	2,055
Interest expenses (income)	5,269	(2,191)	3,078
Subtotal	564,379	(232,020)	332,359
Defined benefit liabilities/assets re-measurement amount			
Actuarial gains and losses resulting from changes in financial assumption	15,837	-	15,837
Experience adjustments	-	-	-
Defined benefit assets re-measurement amount	-	(6,887)	(6,887)
Subtotal	15,837	(6,887)	8,950
Payment of benefits	(39,069)	31,299	(7,770)
Contributions of employer	-	(40,924)	(40,924)
2018.12.31	<u>\$541,147</u>	<u>\$(248,532)</u>	<u>\$292,615</u>

The following key assumptions are used to determine the Company's defined benefit plan:

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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	2018.12.31	2017.12.31
Discounted rate	1.000%	1.000%
Expected salary increase rate	2.000%	2.000%

Sensitivity analysis of each major actuarial hypothesis:

	2018		2017	
	Increase of defined benefit obligations	Decrease of defined benefit obligations	Increase of defined benefit obligations	Decrease of defined benefit obligations
Discount rate increased by 0.25%	\$-	\$(7,459)	\$-	\$(8,553)
Discount rate decreased by 0.25%	7,707	-	8,844	-
Expected salary increase by 0.5%	15,641	-	17,953	-
Expected salary decrease by 0.5%	-	(14,804)	-	(16,968)

The foregoing sensitivity analysis is conducted to analyze the possible impact on the defined benefit obligations when single actuarial assumption (e.g., discount rate or expected salary) has a reasonable and possible change occurring, assuming other assumptions remain unchanged. Since some of the actuarial assumptions are correlated, the occurrence of changes in one single actuarial assumption is seldom in practice, so the analysis has its limitations.

The methods and assumptions used in the sensitivity analysis for this period are no different from those adopted in the previous period.

24. Other liabilities

	2018.12.31	2017.12.31
Deposits received	\$4,184	\$20,268
Advance income	259,579	251,720
Others	23,082	21,111
Total	\$286,845	\$293,099

25. Equity

(1) Common stock

As of December 31, 2018 and 2017, the Company's authorized capital stock was NT\$30,000,000 thousand, respectively, and the paid-in capital was NT\$11,512,343 thousand, NT\$10 par, divided into 1,151,234 thousand shares. Each share is entitled to one voting right and the right to receive dividends.

(2) Capital surplus

	2018.12.31	2017.12.31
Common stock premium	\$54,455	\$54,455
Treasury stock transactions	42,544	5,282
Others	2,586	2,586
Total	\$99,585	\$62,323

The various capital reserve balances on December 31, 2018 and 2017 are adjusted as follows:

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

	Common stock premium	Treasury stock transactions	Stock option	Others	Total
Balance as of January 1, 2018	\$54,455	\$5,282	\$-	\$2,586	\$62,323
Share-based payment transaction	-	-	37,262	-	37,262
Transfer of Treasury Stock	-	37,262	(37,262)	-	-
Deregistration of treasury shares	-	-	-	-	-
Balance as of December 31, 2018	\$54,455	\$42,544	\$-	\$2,586	\$99,585
Balance as of January 1, 2017	\$54,455	\$5,282	\$-	\$2,586	\$62,323
Share-based payment transaction	-	-	-	-	-
Transfer of Treasury Stock	-	-	-	-	-
Deregistration of treasury shares	-	-	-	-	-
Balance as of December 31, 2017	\$54,455	\$5,282	\$-	\$2,586	\$62,323

According to the law, additional paid-in capital shall not be used for any purpose except for making up for the loss of the Company. When the Company has no loss, a certain percentage of the additional paid-in capital from the stock premium and the gift can be applied to replenish capital every year. The aforementioned additional paid-in capital can be allocated in cash to shareholders proportionally to their original shareholding ratio.

(3) Treasury stock

a. Changes in Treasury Stocks are as follows:

January 1 to December 31, 2018:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	5,000 thousand shares	-
Maintain corporate credit and shareholders' equity	-	10,000 thousand shares	-	10,000 thousand shares
Total	5,000 thousand shares	10,000 thousand shares	5,000 thousand shares	10,000 thousand shares

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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January 1 to December 31, 2017:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	-	5,000 thousand shares
Maintain corporate credit and shareholders' equity	-	-	-	-
Total	5,000 thousand shares	-	-	5,000 thousand shares

- b. As of December 31, 2018 and 2017, the amount of Treasury Stocks that are not yet canceled or distributed to employees was NT\$314,865 thousand and NT\$129,640 thousand, respectively, which was for 10,000 thousand shares and 5,000 thousand shares, respectively.
- c. The Company transferred treasury stock to employees for 914 thousand shares and 4,086 thousand shares on March 16, 2018 and July 19, 2018.
- d. The treasury stocks held by the Company shall not be pledged, nor shall they be entitled to the distribution of dividends and voting rights according to the Securities Exchange Act.

(4) Earnings allocation and dividend policy

According to the Articles of Association of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:

- A. Withholding taxes
- B. Making up for the loss
- C. Appropriate 30% as the legal reserve
- D. Making appropriation according to other provisions of the law or the order of the competent authority, or reversing the special reserves
- E. The Board of Directors shall use the dividend policy to prepare an earnings distribution plan according to the remaining amount and present it in the shareholders meeting for resolutions.

The principle of dividend distribution of the Company is based on the business operation needs of the Company and the revision of major laws and regulations. The Board of Directors presents the proposal in the Shareholders Meeting for resolutions with the ratio of the cash dividend moderately adjusted, which shall not be less than 1% of the total dividends. If the cash dividend per share is less than NT\$0.1, it will not be distributed.

According to the Banking Act, the legal reserve should be appropriated until the total amount is equivalent to the total capital. Before the legal reserve is equivalent to the total capital, the maximum distribution of a cash dividend shall not exceed 15% of the total capital. The legal reserve can be used to make up for the loss. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be applied to have stock shares or cash distributed to shareholders proportionally to their original shareholding ratio.

According to the provisions of the Securities Exchange Act, when the competent authorities consider it necessary, it may request the listed companies to have a certain percentage of special reserve appropriated in addition to appropriating the legal reserve lawfully at the time of distributing earnings.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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After adopting IFRSs, when the Company adopted IFRSs for the first-time according to the FSC. Fa.Zi No. 1010012865 Letter issued by the Financial Supervisory Commission on July 6, 2012, for the booked unrealized revaluation increments and the cumulative conversion adjustment benefits are transferred to the retained earnings due to the adoption of IFRS 1 "First-time Adoption of International Financial Reporting Standards Data" exemption on the conversion date, a special reserve for the same amount is appropriated. After having the financial report prepared in accordance with IFRSs, when the distributable earnings are distributed, an additional special reserve is appropriated for an amount equivalent to the difference between the balance of the special reserve appropriated at the first-time adoption of IFRSs and the net debit of other equity. If the amount debited to the other shareholders' equity is reversed subsequently, the reversed amount can be distributed.

As of January 1, 2018 and 2017, the special reserve at the first-time adoption amounted to \$45,549 thousand. In addition, the Company did not use, dispose of, or reclassify the relevant assets in the period from January 1 – December 31, 2018 and 2017 that caused having the special reserve reversed to the undistributed earnings. As of December 31, 2018 and 2017, the special reserve for the first time was NT\$45,549 thousand.

The 2018 and 2017 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on February 25, 2019 and the shareholders meeting on May 17, 2018 as follows:

	Distribution of retained earnings		Dividends per share (\$)	
	2018	2017	2018	2017
Legal reserve	\$863,340	\$1,683,160		
Special reserve	437,551	28,053		
Common stock cash dividends	1,711,852	1,720,722	\$1.5	\$1.5
Total	<u>\$3,012,743</u>	<u>\$3,431,935</u>		

Please refer to Note VI. 30 for the relevant information on the estimation basis and recognition amount of the employee compensation and the remuneration to directors and supervisors.

26. Net interest income

	2018	2017
<u>Interest revenue</u>		
Discount and loan interest income	\$4,289,864	\$3,662,664
Due from bank and interbank offered interest income	46,157	155,740
Security investment interest income	2,372,807	2,307,987
Other interest incomes	21,056	36,199
Subtotal	<u>6,729,884</u>	<u>6,162,590</u>
<u>Interest expenses</u>		
Deposits Interest expenses	(984,320)	(963,435)
Central Bank and interbank interest expense	(400,049)	(227,620)
Interest expense of the RP bonds	(451,828)	(232,434)
Others	(34)	(196)
Subtotal	<u>(1,836,231)</u>	<u>(1,423,685)</u>
Total	<u>\$4,893,653</u>	<u>\$4,738,905</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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27. Service Fee, Net

	2018	2017
Service fee income	\$1,627,650	\$1,487,395
Service fee expenses	(46,833)	(41,967)
Total	<u>\$1,580,817</u>	<u>\$1,445,428</u>

28. Gain (loss) on financial assets and liabilities at fair value through profit and loss

	2018	2017
Stock investment	\$(537,202)	\$650,403
Bond investment	385,140	421,449
Derivatives	(60,793)	(59,612)
Others	41,675	591
Total	<u>\$(171,180)</u>	<u>\$1,012,831</u>

29. The reversed benefit of asset impairment and bad debts, commitments, and guarantee reserve

	2018	2017
Financial assets at fair value through other comprehensive profit or loss	\$58,560	(Notes)
Financial assets based on cost after amortization	132	(Notes)
Fixed assets	417	(15,213)
Available-for-sale financial assets – bond investment	(Notes)	145,717
Subtotal	<u>59,109</u>	<u>130,504</u>
Loan and receivables bad debt (appropriation)	(1,658,655)	(619,877)
Guarantee reserve reversed (appropriation)	40,562	(19,620)
Financing commitment reserve reversed (appropriation)	11,500	(Notes)
Subtotal	<u>(1,606,593)</u>	<u>(639,497)</u>
Total	<u>\$(1,547,484)</u>	<u>\$(508,993)</u>

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Please refer to Note XIV for credit risk related information.

30. Operating expenses

The employee benefits, depreciation, and amortization expenses is summarized by function as follows:

	2018	2017
Employee benefits expenses		
Salaries and wages	\$731,801	\$796,952
Labor insurance and national health insurance	63,381	62,754
Pension expenses	35,890	37,461
Director's remuneration	27,523	28,146
Other employee benefits expenses	39,721	36,038
Depreciation	49,653	50,954
Total	<u>\$947,969</u>	<u>\$1,012,305</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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The Company had 954 employees and 938 employees as of December 31, 2018 and 2017, respectively. There are seven directors not served as an employee.

According to the Articles of Association, if the Company has earnings for the year, no less than 0.01% of the earnings should be appropriated to pay employees' compensation and no more than 2% of the earnings should be appropriated as remuneration to directors and supervisors. However, when there are accumulated losses, an equivalent amount should be appropriated to make up for losses. The remuneration to employees is paid with stock dividend or cash; also, it must be with the consent of the majority of the presenting directors in the Board meeting that is with two thirds of the directors attended; also, the resolution should be reported in the shareholders' meeting. Please refer to the "Market Observation Post System" of the Taiwan Stock Exchange for information on employee compensation and remuneration to directors and supervisors resolved by the Board of Directors.

On January 1 to December 31, 2018 and 2017, according to the profit generated, an amount equivalent to 0.01% of the earnings was appropriated for the employee's remuneration, NT\$360 thousand and NT\$640 thousand, respectively, which was listed in the "salary expense" account.

The Company's Board of Directors had resolved on February 25, 2019 to have the 2018 employees' compensation and the remuneration to directors and supervisors distributed for an amount of NT\$360 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2018 financial report.

The Company's Board of Directors had resolved on February 26, 2018 to have the 2017 employees' compensation and the remuneration to directors and supervisors distributed for an amount of NT\$640 thousand and NT\$0, respectively, which was not significantly different from the expenses booked in the 2017 financial report.

There is no significant difference between the actual employees' compensation and remuneration to directors and supervisors distributed in 2018 and the expenses booked in the 2017 financial report.

31. Other comprehensive income

The other comprehensive income on January 1 to December 31, 2018 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive profit or loss	Income tax benefit (expense)	After-tax amount
Titles not reclassified as profit and loss accounts:					
Evaluation of the capital gain/loss from equity instrument at fair value through comprehensive income statement as other comprehensive income	\$(68,926)	\$-	\$(68,926)	\$-	\$(68,926)
The share of subsidiaries, affiliates and joint venture using the equity method	(3,014)	-	(3,014)	-	(3,014)
Defined benefit plan re-measurement amount	(8,950)	-	(8,950)	8,632	(318)

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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	Accrued in current year	Current reclassification adjustment	Other comprehensive profit or loss	Income tax benefit (expense)	After-tax amount
Accounts to be reclassified to profit or loss subsequently:					
Exchange differences from the translation of financial statements of foreign operations	64,596	-	64,596	(12,048)	52,548
Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income	(3,303,829)	20,004	(3,283,825)	-	(3,283,825)
Total	<u><u>\$ (3,320,123)</u></u>	<u><u>\$ 20,004</u></u>	<u><u>\$ (3,300,119)</u></u>	<u><u>\$ (3,416)</u></u>	<u><u>\$ (3,303,535)</u></u>

The other comprehensive income on January 1 to December 31, 2017 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive profit or loss	Income tax benefit (expense)	After-tax amount
Titles not reclassified as profit and loss accounts:					
Defined benefit plan re-measurement amount	\$(7,372)	\$-	\$(7,372)	\$1,254	\$(6,118)
Accounts to be reclassified to profit or loss subsequently:					
Exchange differences from the translation of financial statements of foreign operations	(32,956)	-	(32,956)	5,603	(27,353)
Unrealized valuation gains and losses of available-for-sale financial assets	1,231,492	(957,791)	273,701	-	273,701
The share of subsidiaries, affiliates and joint venture using the equity method	28,972	-	28,972	-	28,972
Total	<u><u>\$ 1,220,136</u></u>	<u><u>\$ (957,791)</u></u>	<u><u>\$ 262,345</u></u>	<u><u>\$ 6,857</u></u>	<u><u>\$ 269,202</u></u>

The Company's debt instrument investment measured at fair value through other comprehensive income in the period from January 1 to December 31, 2018 is reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NT\$20,004 thousand.

32. Income tax

According to the amended provisions of the Income Tax Law promulgated on February 7, 2018, the income tax rate of the profit-making enterprise applicable from the year of 2018 was changed from 17% to 20%, and the additional business tax rate for undistributed earnings was decreased from 10% to 5%.

The main composition of income tax expenses (benefit) is as follows:

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Income tax recognized in profit or loss

	2018	2017
Current income tax expenses (benefit):		
Payable income tax for the current period	\$627,106	\$823,330
The income tax of the previous years adjusted in the current period	(8,766)	(3,114)
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	55,701	(30,495)
Deferred income tax related to changes in tax rates or new taxation	(47,265)	-
Income tax expenses	<u>\$626,776</u>	<u>\$789,721</u>

Income tax recognized in the other comprehensive profit or loss

	2018	2017
Deferred income tax expense (benefit):		
Exchange differences from the translation of financial statements of foreign operations	\$12,048	\$ (5,603)
Defined benefit plan actuarial (loss)	(8,632)	(1,254)
The other comprehensive profit or loss related income tax	<u>\$3,416</u>	<u>\$(6,857)</u>

The amount of income tax expense and accounting profit multiplied by the applicable income tax rate is adjusted as follows:

	2018	2017
Net income before tax of the continuing business units	<u>\$3,504,577</u>	<u>\$6,400,255</u>
Tax amount calculated according to the domestic tax rate applicable to the income of the country concerned	\$700,915	\$1,088,043
Income tax effect of the tax-free income	(417,462)	(680,118)
Income tax effect of non-deductible expenses on tax returns	323	9,069
Income tax effect of deferred income tax assets/liabilities	(9,168)	(26,451)
Basic tax adjustment	143,686	243,859
Additional 10% income tax on the undistributed earnings	217,248	158,433
The income tax of the previous years adjusted in the current period	(8,766)	(3,114)
Total income tax expense recognized in profit or loss	<u>\$626,776</u>	<u>\$789,721</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Deferred income tax assets (liabilities) balances related to the following items:

January 1 to December 31, 2018

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$17,967	\$(20,618)	\$-	\$(2,651)
Allowance for bad debt	135,531	21,844	-	157,375
Impairment of Assets	22,336	898	-	23,234
Employees' leave benefits liabilities	6,174	(448)	-	5,726
Compensation payable	7,250	2,026	-	9,276
Reserve for guarantee liability	17,736	(6,447)	-	11,289
Net determined benefit liability- non-current	55,895	(5,691)	8,632	58,836
Conversion difference of the financial statements of foreign institutions	4,944	-	(12,048)	(7,104)
Deferred income tax benefit (expense)		<u>\$(8,436)</u>	<u>\$(3,416)</u>	
Net deferred income tax assets	<u>\$267,833</u>			<u>\$255,981</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$267,833</u>			<u>\$265,736</u>
Deferred tax liabilities	-			9,755
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$50,135</u>			<u>\$59,890</u>

January 1 to December 31, 2017

	Balance, beginning	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Balance, ending
Temporary differences				
Financial assets measured at fair value through profit or loss	\$(4,688)	\$22,655	\$-	\$17,967
Allowance for bad debt	131,132	4,399	-	135,531
Impairment of Assets	19,750	2,586	-	22,336
Employees' leave benefits liabilities	3,163	3,011	-	6,174
Compensation payable	6,727	523	-	7,250
Reserve for guarantee liability	12,774	4,962	-	17,736
Net determined benefit liability- non-current	62,282	(7,641)	1,254	55,895
Conversion difference of the financial statements of foreign institutions	(659)	-	5,603	4,944
Deferred income tax benefit (expense)		<u>\$30,495</u>	<u>\$6,857</u>	
Net deferred income tax assets	<u>\$230,481</u>			<u>\$267,833</u>
The information expressed on the balance sheet is as follows:				
Deferred income tax assets	<u>\$235,828</u>			<u>\$267,833</u>
Deferred tax liabilities	5,347			-
Deferred income tax liabilities - land value incremental tax reserve	50,135			50,135
Total	<u>\$55,482</u>			<u>\$50,135</u>

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Income tax declaration and audit

As of December 31, 2018, the income tax returns of the Company and Audited up to the year of 2016.

33. Earnings per share

The basic earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period.

The diluted earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period plus the weighted average number of common stock shares to be issued when all dilutive potential common stock shares were converted into common stock shares.

	2018	2017
(1) Basic earnings per share		
Net income (NT\$ Thousands)	\$2,877,801	\$5,610,534
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,147,757	1,146,234
Base earnings per share (\$)	\$2.51	\$4.89
(2) Diluted earnings per share		
Net income (NT\$ Thousands)	\$2,877,801	\$5,610,534
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,147,757	1,146,234
Dilution effect	-	-
Weighted average number of common stock shares (Thousand shares) after adjusting the dilution effect	1,147,757	1,146,234
Diluted earnings per share (NT\$)	\$2.51	\$4.89

There was no other transaction performed to cause significant changes to the outstanding common stock shares or the potential common stock shares after the reporting period and before the release of the financial statements.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

VII. Related party transactions

1. Names of related parties and their relationship with the company

Name	Relationship with the Company
Tainan Life Insurance Agent Co., Ltd.	Subsidiaries of the Company
Fu Chen Property Insurance Agent Co., Ltd.	Subsidiaries of the Company
KTB International Leasing Co., Ltd.	Subsidiaries of the Company
KTB International Real Estate Management Co., Ltd.	Subsidiaries of subsidiaries of the Company
Chen-Chih Tai	Chairman of the Company
Chiung-Ting Tsai	Vice Chairman of the Company
Shih-Chu Chien	President of the Company (2017.9.26 retired)
Jih-Cheng Chang	President of the Company (2017.9.26 took office)
Tian Gang Investment Co., Ltd	Director of the Company
Ming-Tai Chen	Independent Director of the Company
Yi Chiu	Independent Director of the Company (2017.5.17 retired)
Tsai- Feng Hou	Independent Director of the Company (2017.5.17 retired)
Chih-Chien Hsu	Independent Director of the Company (2018.5.16 resigned)
Chao-Long Chen	Independent Director of the Company (2017.5.17 took office)
Hung-Liang Chiang	Independent Director of the Company (2018.11.2 took office)
Others	Representatives of the Company's managers, incorporated directors and supervisors, and their second cousins and substantive stakeholders

2. Significant transactions with related parties

(1) Deposit and loan

Account titles	Amount	% of the account balance
<u>2018.12.31</u>		
Deposits	\$478,632	0.25%
Loans	33,496	0.02%
<u>2017.12.31</u>		
Deposits	\$1,804,278	1.00%
Loans	47,474	0.03%

For the deposit interest rate between the Company and its related parties, except for when the Company clerk's savings deposit amount within the prescribed limit has interest calculated according to a preferential deposit interest rate, the amount exceeding the threshold and the deposit interest rate of the other related party are same as the interest rate of the general customers.

(2) Lease

The rental income paid by the related party for the lease of the office on January 1 to December 31, 2018 and 2017 were NT\$984 thousand and NT\$948 thousand, respectively.

The rental expenses paid to the related party for the lease of the office on January 1 to December 31, 2018 and 2017 were NT\$3,840 thousand and NT\$5,995 thousand, respectively.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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- (3) The fees income, chairman salary and director's compensation paid by the related parties in the year of 2018 and 2017 (accounting for consolidated income statement - Net income other than interest income) as follows:

	2018	2017
Tainan Life Insurance Agent Co., Ltd.	\$43,344	\$53,907
Fu Chen Property Insurance Agent Co., Ltd.	1,838	1,806
KTB International Leasing Co., Ltd.	-	270
	\$45,182	\$55,983

- (4) Loans

December 31, 2018

Type	Number of accounts or name of stakeholder	Maximum balance – current period	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	8	\$4,586	\$4,413	\$4,413	\$-	None	None
Residential mortgage loans	4	23,503	23,308	23,308	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

December 31, 2017

Type	Number of accounts or name of stakeholder	Maximum balance – current period	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	No-performing loans		
Consumer loan	8	\$4,838	\$4,660	\$4,660	\$-	None	None
Dwelling house Mortgage loan	7	37,813	37,514	37,514	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	Chou OO	3,000	3,000	3,000	-	Real estate	None
Other loans	Wu OO	1,200	1,200	1,200	-	Real estate	None

- (5) Guaranteed amount: None

- (6) Derivative financial instrument transactions: None

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(7) Sale of non-performing loan: None

(8) Remuneration of directors and key management personnel of the Company

	2018	2017
Short-term employee benefits	\$42,455	\$48,778
Retirement benefits	1,763	1,896
Total	<u>\$44,218</u>	<u>\$50,674</u>

VIII. Pledged assets

The Company has the following assets provided as collateral:

Item	Book value		Guaranteed debt
	2018.12.31	2017.12.31	
Financial assets at fair value through profit and loss	\$6,737,446	\$3,326,990	RP transaction
Financial assets at fair value through profit and loss	11,203	(Notes)	Various business reserves and collateral
Financial assets at fair value through other comprehensive profit or loss	2,056,191	(Notes)	Various business reserves and collateral
Financial assets at fair value through other comprehensive profit or loss	25,914,862	(Notes)	RP transaction
Financial assets at fair value through other comprehensive profit or loss	8,689,407	(Notes)	Funds borrowed from banks
Available-for-sale financial assets – bonds	(Notes)	2,031,188	Various business reserves and collateral
Available-for-sale financial assets – bonds	(Notes)	19,563,775	RP transaction
Available-for-sale financial assets – bonds	(Notes)	9,257,097	Funds borrowed from banks
Liability instrument investments for which no active market exists	(Notes)	722,240	RP transaction
Liability instrument investments for which no active market exists	(Notes)	361,555	Funds borrowed from banks
Total	<u>\$43,409,109</u>	<u>\$35,262,845</u>	

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

IX. Significant contingent liabilities and unrecognized contractual commitments

(1) The Company has the following or various trust agents and guarantees:

	2018.12.31	2017.12.31
Receivable and collection	\$10,780,490	\$11,054,245
Receivable guarantees	5,092,739	4,100,022
Receivables from L/C	33,177	89,563
Trust and custody	27,652,280	14,799,230
Agreed financing amount	17,201,151	25,627,607

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

(2) According to the irrevocable operating lease contract, the total future minimum lease payments on December 31, 2018 and 2017 are as follows:

	2018.12.31	2017.12.31
No more than one year	\$78,068	\$71,574
Over 1 year but less than 5 years	188,529	162,426
Over 5 years	25,562	41,689
Total	\$292,159	\$275,689

X. Contents and amount of trust business handled in accordance with the provisions of the Trust Enterprise Act

The Company provides the trust balance sheet, income statement, and property list to the Trust Department in accordance with Article 17 of the Trust Enterprise Act Enforcement Rules as follows:

Balance Sheet of Trust Accounts

	2018.12.31	2017.12.31		2018.12.31	2017.12.31
Trust assets			Trust liabilities		
Bank deposits	\$3,687,960	\$459,559	Payables	\$49,179	\$-
Stock	384,111	87,000	Other liabilities	1,769	-
Fund	10,414,291	10,913,450	Trust capital	27,583,648	14,732,407
Real estate	12,380,141	2,683,822	Reserve		
Other assets			And	(44,316)	4,823
	723,777	593,399	accumulated		
			earnings		
Total trust assets	\$27,590,280	\$14,737,230	Total trust liabilities	\$27,590,280	\$14,737,230

Income Statement of Trust Accounts

Item	2018	2017
Amount		
Interest revenue	\$751	\$393
Rent revenue	11,994	4,430
Subtotal	12,745	4,823
Trust expenses		
Sales expense	35,376	-
Appraisal expense	6,612	-
Remuneration expense	8,418	-
Other Expenses	6,655	-
Subtotal	57,061	-
Net income before tax (net loss)	(44,316)	4,823
Income tax expenses	-	-
Net income (net loss)	(44,316)	\$4,823

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Property Catalogue of Trust Accounts

Investment	2018.12.31	2017.12.31
Bank deposits	\$3,687,960	\$459,559
Stock	384,111	87,000
Fund	10,414,291	10,913,450
Real estate		
Land	8,953,760	2,401,672
Buildings and structures	3,150,231	282,150
Construction in progress	276,150	-
Others	723,777	593,399
Total	\$27,590,280	\$14,737,230

XI. Significant disaster loss

No such event

XII. Significant subsequent events

No such event

XIII. Fair value and grade information of financial instruments

1. Information on the fair value of financial instruments

Financial assets:

	2018.12.31	
	Book value	Fair value
Financial assets measured at fair value through profit or loss		
Mandatorily measured at fair value through profit of loss (Note)	\$31,459,508	\$31,459,508
Financial assets at fair value through other comprehensive profit or loss (Note)	53,412,766	53,412,766
Financial assets based on cost after amortization (Note):		
Investment of debt instruments on the basis of cost after amortization	17,597,996	17,597,996
Cash and cash equivalents (excluding cash on hand)	2,721,751	2,721,751
Due from Central Bank and lend to Banks	13,844,758	13,844,758
Bonds and securities sold under repurchase agreements	624,167	624,167
Accounts receivable	1,028,136	1,028,136
Discounts and loans	152,229,752	152,229,752
Other financial assets	4,705	4,705

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

	2017.12.31	
	Book value	Fair value
Financial assets measured at fair value through profit or loss		
Held for transaction purposes (Note)	\$21,277,599	\$21,277,599
Financial assets designated to be measured at fair value through profit or loss at the time of original recognition (Note)	329,256	329,256
Available-for-sale financial assets (including financial assets measured at cost) (Note)	58,930,959	58,930,959
Loans and accounts receivable (Note):		
Cash and cash equivalents (excluding cash on hand)	2,912,295	2,912,295
Due from Central Bank and lend to Banks	14,535,143	14,535,143
Bonds and securities sold under repurchase agreements	2,565,772	2,565,772
Accounts receivable	950,065	950,065
Discounts and loans	142,947,865	142,947,865
Other financial assets	1,356	1,356
Liability instrument investments for which no active market exists	1,980,968	2,057,821

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

Financial liabilities:

	2018.12.31		2017.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities based on cost after amortization:				
Due to Central Bank and other banks	\$19,937,251	\$19,937,251	\$22,269,428	\$22,269,428
Funds borrowed from Central Bank and other banks	2,458,640	2,458,640	4,775,680	4,775,680
Bills and bonds sold under repurchase agreements	29,316,496	29,316,496	21,359,805	21,359,805
Payables	2,299,446	2,299,446	2,419,466	2,419,466
Customer deposits and remittances	188,677,300	188,677,300	180,719,981	180,719,981
Financial liabilities at fair value through profit and loss:				
Held for transaction purposes	25,784	25,784	127,902	127,902

The derivative financial instrument transactions are detailed as follows:

	Item	Contract amount	Fair value
2018.12.31			
	Foreign exchange contracts	\$4,176,667	\$13,233
2017.12.31			
	Foreign exchange contracts	3,417,704	(105,711)

2. Methods and assumptions used in the fair value of financial instruments

Fair value is the price that would be collected for the assets sold or price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. The methods and assumptions used by the Company to measure or disclose the fair value of financial assets and financial liabilities are as follows:

- (1) The fair value of short-term financial products is estimated according to the book value on the balance sheet. Because the maturity date of such products is very close or the current collection price is equal to the book value, so the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits with the Central Bank and inter-bank lending, resell (RS) bill and bond investments, receivables, deposits of the Central Bank and interbank, financing of the Central Bank and interbank, RP bill and bond liabilities, payables, deposits and remittances, and other financial liabilities.
- (2) For financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, available-for-sale financial assets, and held-to-maturity financial assets, if there is a public market price available, such market price is the fair value, which refers to the closing price on the balance sheet date for the listed (OTC) equity security with a market price available, the net asset value on the balance sheet date for the fund, the closing price or reference price on the balance sheet date for the bond, and the settlement price or the counterparty's quote for the derivative financial products. If no market price is available for reference, the evaluation method is used for estimation. When the Company adopts the market price including the purchase price and the selling price, the Company will evaluate the selling (purchasing) position at the market buying (selling) price. If there is no market price available at the time of evaluation but there is the most recent market transaction price available, then the said transaction price is the fair value of such financial asset.
- (3) Discounts, loans, and deposits are all interest-bearing financial assets and liabilities, so their book value is similar to the current fair value. The book value of the collection is the estimated recovery amount net of the allowance for bad debt. Therefore, the book value is the fair value.
- (4) For debt-based instruments that are without an available market price, the fair value is determined by the counterparty's quotation or valuation technology. The determination of valuation technology is based on the discounted cash flow analysis. The assumptions of interest rate and discount rate are mainly based on information related to similar instruments (for example, Taipei Exchange reference yield curve, the Reuters commercial promissory interest rate average quotation, and credit risk information).
- (5) The fair value of derivatives (including forward foreign exchange and foreign exchange transactions) is the amount that the Company is expected to obtain or must pay if it terminates the contract at the agreed reporting date. The Company calculates the fair value of the position held with the parameters or quotation information disclosed by the Reuters Information System.
- (6) The fair value of the equity instruments (e.g.: private company's stock shares) that do not have a market price available is estimated with the market approach, which is with the fair value estimated with the price generated in market transactions of the same or comparable company's equity instruments and other relevant information (e.g. lack of liquidity discount factor, the profit ratio of the similar company's stock, and the input

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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value of the similar company's stock price book ratio).

Please refer to Note XIII. 3 for the information on the fair value bracket of the Company's financial instruments.

3. Fair value hierarchy

(1) The definition of the Company's three-level fair value

① Level I

Refers to the public offer (unadjusted) of the same financial instrument available in the market on the measurement date. The fair value of the listed stocks, beneficiary certificates, corporate bonds, financial bonds, convertible corporate bonds, and derivatives with a market price available invested in by the Company is classified as Level I.

② Level II

It refers to the observable prices other than the quote in an active market, including the observable input parameters directly (as prices) or indirectly (e.g. derived from prices) acquired from an active market. It includes the convertible corporate bonds, Taiwan Central Government bonds, and general derivatives invested by the Company.

③ Level III

It means that the input parameters for measuring fair value are not based on information available from the market or by the quotations provided by the counterparty. It includes the unlisted stocks invested by the Company.

For assets and liabilities that are recognized in the financial statements on a repetitive basis, the classification is re-evaluated at the end of each reporting period to determine whether there is a transfer between the fair value levels.

(2) Information on the fair value measurement levels:

The Company does not have non-repetitive assets measured at fair value. The information on the fair value level of repetitive assets and liabilities is shown below.

2018.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$4,257,240	\$4,257,240	\$-	\$-
Bond investment	24,435,062	301,361	24,133,701	-
Derivatives	39,017	-	39,017	-
Others	2,728,189	2,728,189	-	-
Financial assets at fair value through other comprehensive profit or loss				
Stock investment	816,402	93,960	-	722,442
Bond investment	52,596,364	36,881,446	15,714,918	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Derivatives	25,784	-	25,784	-

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

2017.12.31

	Total	Level I	Level II	Level III
<u>Assets measured at fair value</u>				
Financial assets at fair value through profit and loss				
Stock investment	\$3,201,462	\$3,201,462	\$-	\$-
Bond investment	17,933,192	300,635	17,632,557	-
Foreign exchange contracts	22,191	-	22,191	-
Others	450,010	450,010	-	-
Available-for-Sale Financial Assets				
Stock investment	1,435,061	1,435,061	-	-
Bond investment	56,947,830	36,946,669	20,001,161	-
Others	340,755	340,755	-	-
<u>Liabilities measured at fair value</u>				
Financial liabilities at fair value through profit and loss				
Foreign exchange contracts	127,902	-	127,902	-

(3) Transfer between Level I and Level II fair value

In the period of January 1 – December 31, 2018 and 2017, the Company's assets and liabilities measured at the Company's repetitive fair value was not transferred between Level I and Level II fair value.

(4) Changes in Repetitive Fair Value Level III Statement

If the assets measured with the Company's repetitive fair value that are classified as Level III fair value, the adjustment of the beginning balance and the ending balance is as follows:

	Financial assets measured at fair value through other comprehensive income - stocks
2018.1.1 (in accordance with IAS 39)	\$207,313
Adjustment amount - beginning	518,595
2018.1.1 (in accordance with IFRS 9)	725,908
Total benefits recognized in 2018:	
Recognized in other comprehensive income (reported in "Unrealized valuation gains and losses from equity instrument investments measured at fair value through other comprehensive income")	(3,466)
2018.12.31	\$722,442

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Significant unobservable input value information of Level III fair value

For the Company's assets measured at Level III repetitive fair value, the significant unobservable input values for fair value measurement are as follows:

	<u>Valuation technique</u>	<u>Significant unobservable input value</u>	<u>Range</u>	<u>Relationship between input value and fair value</u>
Financial assets at fair value through other comprehensive profit or loss				
Stock	Market Approach	Lack of liquidity discount rate	20%~30%	The higher the lack of liquidity, the lower the estimated fair value

Evaluation process for Level III fair value

The financial instrument evaluation team of the Company's Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.

(5) Not measured at fair value but must disclose fair value level information

<u>Assets with only fair value disclosed:</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<u>2018.12.31</u>				
Investment of debt instruments on the basis of cost after amortization				
Convertible certificate of deposit	\$17,597,996	\$-	\$-	\$17,597,996
<u>2017.12.31</u>				
Held-to-maturity financial assets				
Convertible certificate of deposit	\$17,600,000	\$-	\$-	\$17,600,000
Liability instrument investments for which no active market exists				
Bonds	-	2,057,821	-	2,057,821

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

4. Transfer of financial assets

Transferred financial assets not being removed in all

In the daily trading activities of the Company, for the transferred financial assets that did not meet the overall de-recognizing conditions, most of them are RP debt securities as collateral held by the counterparty of the transaction. Such transactions are essentially secured borrowings and reflect the Company's liabilities from repurchasing the obligation of the transferred financial assets at a fixed price in the future. For such transactions, the Company is unable to use, sell, or pledge the transferred financial assets during the effective period of the transaction, but the Company still bears the interest rate risk and credit risk. Therefore, it has not been derecognized entirely.

The table below shows the financial assets not qualified under all conditions and related financial liabilities:

December 31, 2018					
Category of financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value position
Financial assets at fair value through profit and loss R/P agreement	\$6,737,446	\$7,429,000	\$6,737,446	\$7,429,000	\$(691,554)
Financial assets at fair value through other comprehensive profit or loss R/P agreement	25,914,862	21,887,496	25,914,862	21,887,496	4,027,366

XIV. Financial risk management

1. Overview

The Company uses the business growth scale to establish a capital adequacy assessment process that meets the risk profile in order to maintain adequate capital. Also, it considers the overall risk exposure, implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks involved in the businesses on and off the balance sheet, such as, credit risk, market risk, operational risk, liquidity risk, country risk, interest rate risk in the banking book, etc., are included in the risk management scope. Policies and methods are stipulated according to different risks, such as, "Credit Policy", "Rules Governing Credit Review and Authorization", "Rules Governing Risks", etc. Stipulate management guidelines according to the needs of the policies and methods, such as, stipulating "Regulations Governing Credit Risk", "Regulations Governing Market Risk", and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks" that are reviewed and approved by the Board of Directors in order to effectively identify, measure, communicate, and monitor various risks.

2. Risk management organizational structure

The risk management of the Company is carried out by the Risk Management Department in accordance with the risk management policy approved by the Board of Directors. The Risk Management Department works closely with business units to identify, assess, and prevent risks. The Board of Directors has a written policy for risk management that covers specific risk exposure, such as, interest rate risk, credit risk, etc. In addition, the Audit Office regularly (at least once a year) and occasionally reviews the risk management and operating procedures of the Company to ensure that the Company's risk management mechanism can be operated effectively. Also, the audit records related to various risks, such as transaction records, statements, and valuations are kept for the review of the Audit Office.

(1) Risk Management Committee

For the purpose of upgrading the risk management mechanism, improving various risks management, avoiding all possible adverse effects on the Company, and seeking maximized profits with limited risks, the Risk Management Committee is established with the President acting as the Chief Commissioner. Also, the department head of the Treasury Department, Digital Service and Channel Management Department, Risk Management Department, Credit Management Department, Administration Department, International Banking Department, Compliance Department, and the Strategic Planning Department and other personnel designated by the President act as the Members of the Committee. The chief auditor may attend the Committee meeting, but may not vote. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Add and amend the Company's risk management policy.
- ② Coordinate the risk management issues of the Company, such as, credit risk, market risk, and operational risk.
- ③ Review the ratio of the Company's regulatory capital to risk assets (referred to as "capital adequacy ratio")
- ④ Handle and review the major risk exposure and unauthorized events which occur.
- ⑤ Major issues or discussions related to risk management proposed by each unit
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

The "Risk Management Department" is the execution unit of the Risk Management Committee and the risk management planning and management unit of the Company. It independently monitors and manages the risks of the Company. The department head of the Risk Management Department acts as the Executive Secretary who is appointed by the Board of Directors. The Risk Management Department is responsible for calculating and monitoring the capital adequacy, and comprehensively handles the risk management and reports to the competent authorities in accordance with various risks management guidelines. Submits a risk control report to the Committee on a quarterly basis and forwards it to the Board of Directors. Also, the Committee sets rules to control various investment positions and transaction quotas, and handles transaction clearing and settlement, such as, bank-wide fund scheduling and securities trading.

(2) Asset and Liability Management Committee

The President of the Company is the Chief Commissioner of the Company's Asset and Liability Management Committee. The members are composed of the personnel

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designated by the President and the department head of the Digital Service and Channel Management Department, the Risk Management Department, the Treasury Department, and the Administration Department. In response to the domestic and foreign financial situation, they are responsible for adjusting the business strategy in a timely manner, maintaining liquidity, safety, and profitability, and holding regular meetings at least once a month. The main tasks are as follows:

- ① Assess the impact of changes in domestic and foreign political and economic situations and the trend of government policies on financial business operations.
- ② Predict the impact of domestic and foreign funds, exchange rates, interest rate trends, and other relevant financial indicators on the Company's business operations.
- ③ Assess the Company's operating performance, capital position, asset and liability risk position, and interest rate sensitivity, as well as study and adjust the best ratio of various assets and liabilities.
- ④ Assess the Company's pricing strategy for deposit and loan interest rates.
- ⑤ Estimate the Company's future operating performance and moderately adjust the Company's business strategy.
- ⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman.

(3) Credit Assessment Committee

The Credit Assessment Committee is chaired by the President and consists of the head of the Credit Management Department, the Risk Management Department, and the Digital Service and Channel Management Department, and the personnel designated by the President to strengthen the review and risk control of the credit business and to ensure the Company's credits. In principle, a meeting will be held once a week to review the credit cases to be granted by the Board of Directors, and the results of the review will be presented to the Board of Directors for approval. The process and transfer of the proposals will be handled by the Credit Management Department.

(4) Investment Management Committee

In order to respond to changes in domestic and foreign financial situations, timely adjust investment strategies and control investment risks to maintain the safety and profitability of the Company's investment positions. The "Investment Management Committee" is established as the highest management unit responsible for the Company's investment business. The Investment Management Committee is chaired by the President, and the members include the head of the Treasury Department and other personnel appointed by the President. The Committee has a meeting held once a month with the following missions to fulfill:

- ① Set the Company's investment strategies and principles according to the changes in domestic and foreign political and economic situations and the trend of government policies.
- ② Assess whether the performance of the investment portfolio meets the expected objectives, predict the impact of changes in domestic and foreign capital situation, exchange rate, interest rate, and other relevant financial indicators on the investment position of the Company, and study whether the investment strategy should be adjusted.
- ③ Review the proportion, allocation, and reinvestment-orientation of various financial investment projects.

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④Review the source of funds and cost structure of the investment.

(5) Information Security Management Committee

The "Information Security Management Committee" is formed to improve the information security management system, respond to all information security-related laws and regulations, and comply with the relevant government regulations in order to reduce the risk impact and influence on the Company due to information security. The Committee has one convener appointed who is the President or an individual appointed by the GM. The members are the head of the Risk Management Department, the Information Technology Department, the Digital Service and Channel Management Department, the Compliance Department, and the department head or the designated individual of the department designated by the convener. The Audit Department may attend the Committee meeting, but may not vote. The Committee will hold meetings from time to time as needed. The main tasks are as follows:

- ①Propose the information security policy of the Company.
- ②Promote the information security management system.
- ③Assess the infrastructure of the information security management system.
- ④Handle and review major information security incidents.
- ⑤Major issues or discussions related to information security proposed by each unit
- ⑥Discussion of other information security issues.

3. Credit Risk

(1) Source and definition of credit risk

Credit risk refers to the risk of default loss caused by the borrower or counterparty due to the deterioration of the company's business condition or other factors (such as, disputes between the company and its counterparty), resulting in the borrower or counterparty not fulfilling its contractual obligations. The sources of credit risk covered on and off balance sheet items. For the Company's credit risk exposure, the items on the balance sheet mainly come from discounts and loans, deposits and interbank lending, debt instrument investments and derivative financial instruments... etc. The off-balance sheet items are mainly guarantees, letters of credit, loan commitments, etc.

(2) Credit risk management policies:

The Company's written credit risk management strategy is prepared as a guideline for the credit operating procedure. Also, the relevant policies and operational guidelines are set up to ensure that the strategy can be implemented continuously and effectively in order to maintain rigorous loan granting standards, monitor credit risk, assess possible business opportunities, and identify and manage non-performing loans. The scope of management includes: ① Various credit risks (including individual credit cases, overall credit check, credit business, non-performing loans, etc.) and credit risk offset instruments, such as, collateral and guarantee, of the businesses on and off the balance sheet. ②A credit risk-related product or position of the banking book or transaction book

In order to maintain a safe and sound credit business and control credit risk, the "Regulations Governing Credit Risk" are stipulated to establish a credit risk control mechanism when planning various businesses in order to implement the procedures

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of identification, measurement, communication, and monitoring. Under the credit management organization structure with decentralization of responsibility planned, each responsible unit is to review and discuss the cases within the authorization in accordance with the "Rules Governing Credit Review and Authorization" in order to ensure the quality of the credit assets. The "Directions for Credit Review and Implementation" are formulated. Also, the Credit Review Department at the head office is responsible for handling and strengthening post-loan management in order to effectively control credit risk.

The credit risk management procedures and measurement methods for each major business of the Company are described below:

① Credit business (including loan commitments and guarantees)

The classification of credit assets and credit quality rating are described as follows:

A. Credit asset classification

The Company's credit assets are classified into five categories. Except that the normal credit assets are classified as Category I, the non-performing credit assets are evaluated according to the loan guarantee status and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful", and Category V "Loss". The Company has formulated the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" to establish the internal processing systems and procedures for asset quality assessment, appropriation of loss reserve, collection of overdue loans, and liquidation of bad debts. Also, it is handled in accordance with the requirements of the competent authorities and the Company. In order to speed up the liquidation of non-performing loans and reduce overdue loans, the Company has the "Rules Governing Non-Performing Loans" formulated to realize a sound financial structure and to enhance asset and liability management.

B. Credit quality rating

The Company has formulated the "Corporate Finance and Consumer Finance Business Classification" according to the business characteristics and scales. The directions for credit rating are formulated for corporate accountholders and individual accountholders. The credit rating scores of the debtors are classified into 10 grades (C1~C10), which is an internal credit rating and it is used for risk management. The credit rating is used as criteria for credit approval and as reference in determining credit conditions, and those with a poor credit rating are subject to higher credit review frequency.

② Deposit and inter-bank lending

The Company evaluates the credit status of the counterparty before the transaction initiated. Also, it determines the ratio of loans in New Taiwan Dollars and foreign currency according to the domestic and foreign financial inter-bank credit rating before the end of each year, and submits it to the Credit Review Committee for review and reports it to the Board of Directors for approval.

③ Debt instrument investment and derivative financial instruments

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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The Company's credit risk management of debt instrument is to identify credit risk through the credit rating of debt instrument by domestic and international credit rating agencies, bond guarantee institutions, country risks, and counterparty risk. For the financial institutions that initiate investments in the Company's derivative financial product transactions, set the ceiling of the financial transaction amount by the nature of the counterparty and the credit rating in accordance with the "Regulations Governing Derivatives Transactions Quota".

(3) Credit risk hedge or mitigation policy

① Collateral

The Company adopts the methods of stipulating credit limit conditions, collection of collateral, and the guarantor or the transfer of the credit guarantee fund to reduce the credit risk for credit business in order to strengthen the credit of the Company. The Rules Governing Collateral Appraisal and related procedural guidelines and regulations for regulating acceptable types of collateral and the valuation, management, and disposal of collateral have been formulated to ensure credit. It also has a credit guarantee, a collateral clause, and an offset clause formulated. It clearly defines that upon the occurrence of a credit event, the credit amount can be reduced, the borrowing repayment period can be shortened or deemed as fully expired, and the various deposits of the debtors with the Company are applied to offset the liabilities in order to reduce credit risk.

For the verification of collateral appraisal and the collateral check on a regular or irregular basis, verify the credit and collateral revaluation according to the status quo of the debtors, and assess the degree of guarantee provided by the debtors and the legal effect of the guarantor in order to ensure the protection of credit.

② Credit risk limit and credit risk concentration control

The Company has the "Credit Policy" formulated to properly plan and control the credits of the same natural person, the same legal person, the same public enterprise, the same related party, the same associate, and the same group. Set the ceiling (the same public enterprise shall not exceed the net value of the Company, and the ceiling of the same group enterprise shall be adjusted and approved according to its credit rating and prospect) of the ratio to the net value of the Company for each entity in order to control the single credit risk and improve the efficiency of fund utilization. For the ratio of total credit balance of the same industry to the total credit balance of the Company, the ceiling will be approved according to the industry and the overall economy and by referring to the non-performing loan ratio of the industry and future economy. In order to strengthen the credit risk control of each industry overseas and in Mainland China, the respective limit is stipulated accordingly. For the ratio of the total credit balance secured by residential real estate to the total credit balance of the Company, it is divided into the categories of housing repair and working capital limit control by the intended use of funds. Also, the credit-orientation is dynamically adjusted to hedge the overall risk and to avoid excessive credit risk concentrations.

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③ Master net cash clearing

The Company's transactions are usually cleared on a gross amount. Also, an agreement is reached with some counterparties for a net clearing method, or all transactions with the counterparty are terminated with a net amount clearing arranged in the event of default in order to further reduce the credit risk.

(4) Maximum credit risk exposure

The maximum credit risk exposure of the assets stated in the balance sheet without the consideration of collaterals or other reinforced credit instruments approximate their book value. The maximum credit risk exposure amount (excluding collateral or other credit enhancement instruments, and irrevocable maximum risk exposure amount) associated with off-balance sheet items is as follows:

Off-balance sheet items	Credit risk maximum risk exposure amount	
	2018.12.31	2017.12.31
Customer's developed and irrevocable loan commitments	\$17,201,151	\$25,627,607
Customer's outstanding letters of credit amount	668,933	561,932
Guarantee payments	5,092,739	4,100,022
Total	22,962,823	30,289,561

(5) The financial information of the collateral, total net cash clearing amount, and other credit enhanced finance effect related to the book value of the maximum credit risk exposure on and off the balance sheet is illustrated as follows.

December 31, 2018	Collateral	Master net cash clearing	Total
<u>Items on the statement</u>			
Discounts and loans	\$102,787,532	\$-	\$102,787,532
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	10,067,432	-	10,067,432
Customer's outstanding letters of credit amount	203,359	-	203,359
Guarantee payments	1,843,473	-	1,843,473
Total	\$114,901,796	\$-	\$114,901,796

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December 31, 2017	Collateral	Master net cash clearing	Total
<u>Items on the statement</u>			
Discounts and loans	\$104,974,207	\$-	\$104,974,207
<u>Off-balance sheet items</u>			
Customer's developed and irrevocable loan commitments	20,635,499	-	20,635,499
Customer's outstanding letters of credit amount	509,441	-	509,441
Guarantee payments	2,583,101	-	2,583,101
Total	\$128,702,248	\$-	\$128,702,248

The Company's management assesses and believes that the credit risk exposure amount of the off-balance sheet items could be controlled and minimized continuously because the Company has adopted a more stringent selection process during the credit approval and subsequent periodic review.

(6) Status of credit risk concentration

When a financial instrument counterparty is significantly concentrated on one person, or a financial instrument has several counterparties who are mostly engaging in similar business activities and have similar economic characteristics, so that their ability to perform contracts is affected by economic or other conditions in a similar manner, there is a significant concentration of credit risk.

The Company's credit risk concentration is derived from assets, liabilities, or off-balance sheet items, which are generated through transactions (regardless of products or services) performance or implementation, or a combination of cross-category risk exposure, including credit, deposit and inter-bank lending, marketable securities investments, receivables, and derivatives. The Company did not significantly concentrate on trading with single customers or single transaction counterparties. The total transaction amount with single customers or single transaction counterparties accounting for the Company's discounts and loans and collection amount is insignificant. The Company has the credit risk of the discount, loans, and collections illustrated by the industry, region, and collateral as follows:

① By industry

By industry	2018.12.31		2017.12.31	
	Amount	%	Amount	%
I. Private Enterprise	\$121,205,378	79	\$112,255,126	77
II. Government agencies	-	-	-	-
III. Non-profit groups	177,347	-	181,114	-
IV. Private	33,214,250	21	32,749,356	23
V. Financial institution	-	-	-	-
Total	\$154,596,975	100	\$145,185,596	100

② By region

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The Company's main business is conducted in Taiwan and there is no significant concentration of credit risk by region.

③By collateral

By collateral	2018.12.31		2017.12.31	
	Amount	%	Amount	%
Non-secured	\$51,809,444	34	\$40,211,389	28
Secured				
- Financial collateral	14,351,793	9	18,638,770	13
- Real estate	78,741,042	51	68,426,162	47
- Guarantee	1,963,499	1	1,483,894	1
- Other collaterals	7,731,197	5	16,425,381	11
Total	\$154,596,975	100	\$145,185,596	100

(7) Analysis of credit quality and overdue impairment of the Company's financial assets

Certain financial assets held by the Company, such as, cash and cash equivalents, deposits with the Central Bank and interbank lending, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, RS bill and bond investments, refundable deposits, and business bond and fund clearing and settlement, are concluded without low credit risk by the Company since the counterparties all have good credit ratings. In addition to the aforementioned, the credit quality of the other financial assets is analyzed as follows:

Credit quality analysis of discount and loan and receivables:

2018.12.31: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

2017.12.31	Not-overdue impaired-free position amount				Overdue non-impaired position amount	Impaired position amount	Total	Appropriated impairment amount		Net
	High	Medium	Low	Subtotal				With individual objective evidence of impairment	Without individual objective evidence of impairment	
Accounts receivable										
Credit card	\$-	\$-	\$-	\$-	\$-	\$1,379	\$1,379	\$913	\$-	\$466
Others	953,969	31,269	161	985,399	-	14,722	1,000,121	9,382	41,140	949,599
Discounts and loans	97,026,532	47,645,111	3,824	144,675,467	-	510,129	145,185,596	214,097	2,023,634	142,947,865
Other financial assets	1,356	-	-	1,356	-	-	1,356	-	-	1,356

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Credit quality analysis of securities investment:

2018.12.31: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

2017.12.31	Not-overdue impaired-free position amount				Overdue non-impaired position amount	Impaired position amount	Total	Appropriated loss amount	Net
	High	Medium	Low	Subtotal					
Available-for-Sale Financial Assets									
Equity investment	\$1,435,061	\$-	\$-	\$1,435,061	\$-	\$-	\$1,435,061	\$-	\$1,435,061
Bond investment	20,001,161	36,203,823	742,846	56,947,830	-	-	56,947,830	-	56,947,830
Others	340,755	-	-	340,755	-	-	340,755	-	340,755
Liability instrument investments for which no active market exists									
Bond investment	-	1,980,968	-	1,980,968	-	-	1,980,968	-	1,980,968
Investments under the equity method									
Equity investment	1,066,561	-	-	1,066,561	-	-	1,066,561	-	1,066,561
Other financial assets									
Equity investment	207,313	-	-	207,313	-	-	207,313	-	207,313

(8) Analysis of the Company's financial assets that is overdue but without impairment

The Company had no financial assets that were overdue without impairment as of December 31, 2018 and 2017.

(9) Judgment of the Company's credit risk that has increased significantly since the original recognition

Credit business

The Company assesses the change in the risk of default in the expected duration of each type of credit asset on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Company considers the information that evidences the significant and reasonable increase of credit risk (including forward-looking information) since the original recognition. The main considerations include:

① Quantitative indicators:

If the contract is overdue for more than 30 days on the reporting date, it is concluded that the credit risk has increased significantly since the original recognition.

② Qualitative indicators

Observe the following information on the reporting date. If the following

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conditions are met, it is concluded that the credit risk has increased significantly since the original recognition.

- a. The records of bounced checks of the debtors reported by the Company
- b. The dishonored accounts announced by Taiwan Clearing House
- c. A specific performance is implemented by other banks against the collateral of the debtors held by the Company
- d. Acknowledged the debts of the debtors with reorganization requested by other financial institution when implementing the post-loan management procedures of review, tracking, and assessment.
- e. Listed as a collection or debited to bad debts
- f. Acknowledged that the public certified accountants had issued an opinion on the financial statements of the debtors with a concern over the continuing operation of the audited debtors when implementing the post-loan management procedures of review, tracking, and assessment.
- g. Acknowledged other non-performing loans of the debtors.

The Company's various types of credit assets are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

Debt instruments

The Company assesses the change in the risk of default in the expected duration of each type of debt instrument on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Company considers the changes in credit rating that indicates the main evaluation indicator is a quantitative indicator since the original recognition. When the credit rating on each reporting date is lower to an extent than the credit rating on the original recognition date, it is determined that the credit risk has increased significantly since the original recognition.

The Company's various types of debt instrument are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

(10) Definition of the Company's default and credit impairment financial assets

Credit business

The Company's definition of default on various types of credit assets is the same as the default and credit impairment of each type of credit assets. If one or more of the following conditions are met, the Company determines that the various types of credit assets have been defaulted with credit impairment resulted:

① Quantitative indicators

If the contract is overdue for more than 90 days on the reporting date, it is concluded that default and credit impairment have occurred.

② Qualitative indicators:

Observe the following information on the reporting date. If the objective evidence

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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of impairment (such as agreement, bail-out, rehabilitated, etc.) is met, it is determined that default and credit impairment have occurred.

Debt instruments

The Company's definition of default on a debt instrument is the same as the credit impairment of a debt instrument. If one or more of the following conditions are met, the Company determines that the debt instrument has defaulted with credit impairment.

① Quantitative indicators

If the credit rating on each reporting date reaches the default level, it is determined as defaulted with credit impairment.

② Qualitative indicators

Observe the following information on the reporting date. If the following conditions are met, it is determined that default and credit impairment have occurred.

- a. An event of default occurred.
- b. The issuer's significant financial difficulties.
- c. The issuer is likely to apply for bankruptcy or other financial restructuring.

The foregoing definition of default and credit impairment is applicable to all financial assets held by the Company and is consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model.

If the financial assets on the reporting date no longer meet the definition of default and credit impairment, they are concluded to be in the status of performance and are no longer regarded as financial assets that have defaulted with credit impairment.

(11) Write-off policy

When the Company cannot reasonably expect the financial assets to be recovered entirely or partially, it will write off the whole or part of the financial assets in a timely manner in accordance with the requirements of the competent authorities and in line with the Company's asset quality policy.

(12) Measurement of anticipated credit loss

For the purpose of assessing expected credit losses, the Company classifies financial assets into the following combinations according to the credit asset/debt instrument categories, credit ratings, and subject matter claim order:

Credit asset/debt instrument category	Definition
Corporate banking loan	Grouped by risk characteristics, company size, and credit category
Consumer banking loan	Grouped by product category, loan type, etc.
Corporate bonds and financial bonds	Classified by long-term issuer rating (Moody's) and subject matter claim order
Government bonds and Central Bank's convertible certificate of deposit	Classified by sovereign rating (Moody's) and subject matter claim order

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For the financial instruments that have not significantly increased in credit risk (Stage 1) after the original recognition, the Company measures the allowance for loss of the financial instrument according to the expected credit loss amount within 12 months. For the financial instruments with significant increase in credit risk after the original recognition (Stage 2) or with credit impairment (Stage 3), it is measured by the expected credit loss amount of the duration.

In order to measure the expected credit losses, the Company while considering the probability of default (PD) of the borrower/issuer in the next 12 months and the duration includes the loss given default (LGD) and has it multiplied by the exposure at default (EAD), taking into account the impact of the time value of money to calculate the expected credit losses for 12 months and the duration. However, for the off-balance sheet credit assets, it must be multiplied by the credit conversion factor (CCF) that is regulated with the "standardized approach" of Basel II.

The probability of default (PD) and loss given default (LGD) used in the impairment assessment of the Company's credit business/investment business are adjusted and calculated according to the internal and external information of each combination and based on current observable information and forward-looking macro-economic information (e.g. global economic growth rate, inflation rate, etc.).

The Company assesses the amount of financial asset default risk on the reporting date. In addition, based on internal and external information, the Company considers the financial assets to be used within 12 months after the reporting date and the amount expected to be used in order to determine the default risk exposure amount for the calculation of the expected credit loss.

There was no significant change in the estimation techniques or material assumptions that were used in 2018 to assess the expected credit loss.

(13) Consideration of prospective information

The Company uses historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of each asset portfolio, and estimates the impairment parameters after forward-looking adjustment according to the regression model or imputation adjustment method. The relevant economic factors and their impact on PD and LGD vary according to the type of financial instruments.

The relevant economic factors of credit assets identified by the Company in 2018 were the economic growth rate. The relevant economic factors of debt instrument identified by the Company in 2018 were the global economic growth rate and inflation rate.

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(14) Allowance for loss

Changes in allowances for bad debts related to discount and loan

Changes in the allowances for bad debts related to discount and loan for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	\$354,129	\$493	\$-	\$172,532	\$-	\$527,154	\$1,710,577	\$2,237,731
Changes in financial instruments recognized at the beginning of the period:								-
- Converted to expected credit losses of the duration	(5,380)	5,570	-	(276)	-	(86)		(86)
- Converted to financial assets with credit impairment	(14)	(82)	-	1,607,364	-	1,607,268		1,607,268
- Converted to 12-month expected credit loss	4	(39)	-	-	-	(35)		(35)
- Financial assets derecognized in the current period	(200,627)	(129)	-	(23,225)	-	(223,981)		(223,981)
Procured or initiated new financial assets	244,276	36,181	-	(59,119)	-	221,338		221,338
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							71,533	71,533
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)		(1,856,449)
Recovered amount after write-off bad debts	-	-	-	305,650	-	305,650		305,650
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	4,254	4,254
Balance, ending	\$392,388	\$41,994	\$-	\$146,477	\$-	\$580,859	\$1,786,364	\$2,367,223

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Changes in the total book value of discount and loan

Changes in the total book value for the period from January 1 to December 31, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	\$144,675,468	\$111,473	\$-	\$398,655	\$-	\$145,185,596
Converted as anticipated credit loss within the perpetuity of the financial assets	(1,330,487)	804,648	-	-	-	(525,839)
Converted as financial assets with credit impairment	(13,054)	(17,307)	-	1,627,608	-	1,597,247
Transferred out from the financial assets with credit impairment	9,280	(10,138)	-	(1,130)	-	(1,988)
Discount and loan assessed collectively	-	-	-	-	-	-
Initiated or procured discount and loans	90,115,786	2,597,645	-	274,402	-	92,987,833
Write-off bad debts	-	-	-	(1,856,449)	-	(1,856,449)
de-recognition	(82,659,647)	(25,136)	-	(104,642)	-	(82,789,425)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	<u>\$150,797,346</u>	<u>\$3,461,185</u>	<u>\$-</u>	<u>\$338,444</u>	<u>\$-</u>	<u>\$154,596,975</u>

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Changes in expected credit losses of the financial assets-debt instrument measured at fair value through other comprehensive income by the Company are as follows:

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2018	\$31,394	\$138,718	\$-	\$-	\$170,112
Changes arising from the recognition of financial instruments on January 1, 2018					
Converted as anticipated credit loss within the perpetuity of the financial assets	(196)	14,861	-	-	14,665
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	1,425	(63,994)	-	-	(62,569)
Financial assets removed in current period	(3,815)	(10,841)	-	-	(14,656)
Originated or purchased new financial assets	4,188	10,629	-	-	14,817
Changes in model/risk parameters	(286)	(10,670)	-	-	(10,956)
Other changes and exchange rate changes	262	353	-	-	615
Expected credit losses on December 31, 2018	<u>\$32,972</u>	<u>\$79,056</u>	<u>\$-</u>	<u>\$-</u>	<u>\$112,028</u>

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Changes in the total book value of the Company's financial assets-debt instrument measured at fair value through other comprehensive income are further explained as follows:

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2018 (Note)	\$54,188,642	\$2,543,520	\$-	\$-	\$56,732,162
Converted as anticipated credit loss within the perpetuity of the financial assets	(170,884)	176,206	-	-	5,322
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	1,349,115	(1,303,150)	-	-	45,965
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	4,447,269	122,186	-	-	4,569,455
Derecognized financial assets	(8,265,889)	(204,249)	-	-	(8,470,138)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	635,222	30,626	-	-	665,848
Total book value on December 31, 2018 (Note)	<u>\$52,183,475</u>	<u>\$1,365,139</u>	<u>\$-</u>	<u>\$-</u>	<u>\$53,548,614</u>

Note: The total book value does not include an evaluation adjustment

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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The allowance for loss of the Company's receivables is measured with the expected credit loss amount of the duration. The assessment of the allowance for loss on December 31, 2018 is described as follows:

The Company's receivables are not overdue. Counterparties are groups with the considerations of their credit rating, regional, and industrial factors. Also, measure the allowance for loss with the provision matrix. For the total book value of NT\$1,062,823 thousand, the allowance for loss is measured with an expected credit loss rate of 0%~5%, so it is for an amount of NT\$34,687 thousand.

Changes in allowances or loss of notes and accounts receivables of the Company in 2018 is as follows:

	Accounts receivable
Balance – beginning (in accordance with IAS 39)	\$51,435
Adjustments to retained earnings - beginning	-
Balance – beginning (in accordance with IFRS 9)	51,435
Amount appropriated in current period	(18,682)
Write-off amount	(7,376)
Recovery of write-off amount	9,310
Balance, ending	<u>\$34,687</u>

(15) The Company's financial assets with the maximum credit risk exposures as of December 31, 2018 amounted to NT\$204,714,088 thousand, which include financial assets measured at fair value through other comprehensive income and discounts and loans.

(16) The maximum credit risk exposure amount of the financial instruments that are not subject to impairment requirements is as follows:

	2018.12.31	2017.12.31 (Notes)	2017.12.31 (Notes)
Financial assets measured at fair value through profit or loss			
- Debt instrument	\$24,435,062		
- Derivatives	39,017		

Note: The Company has adopted IFRS 9 since January 1, 2018 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRS 9.

(17) Collateral and other credit enhancements

The Company adopts a series of policies and measures for the credit business to reduce credit risk, one of the commonly uses methods is to request the borrower to provide collateral. For the collateral assessment management and loan collateral value calculation, the Company has procedures for the range of collateral collected, the valuation, management, and disposal of collateral formulated to ensure loans. The main types of collateral for the Company's financial assets are as follows:

- Real estate mortgage: The loan amount is set separately according to the location of the real estate. For larger amount or special products, the public appraisers are entrusted to perform price evaluation.

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- Stocks: The reasonable loan amount and evaluation criteria are formulated by the conditions of listing, OTC, emerging market, and unlisted stocks.
- Property: An appropriate loan amount is determined according to the nature of disposition and cost.
- Certificate of Deposit: Mainly refers to the Company's certificate of deposit in foreign currency.
- Credit insurance: It is handled with credit insurance for small and medium-sized enterprises.
- Rights pledge: Special rights, such as, land rights and creditor's rights are judged separately on a case-by-case basis.

For the credit preservation and collateral clauses in the credit contract, it is clearly defined that upon the occurrence of a credit event, the borrowing amount can be reduced and the borrowing repayment period can be shortened or deemed as expired entirely in order to reduce credit risk.

The collateral of other non-credit business is subject to the nature of the respective financial instrument. Only asset-based securities and other similar financial instruments are secured by a group of asset-based financial instruments.

The Company's collateral policy has no significant change occurring on the balance sheet date and there has been no significant change in the quality of the overall collateral.

The Company closely observes the value of collateral for financial instruments and considers the impairment to be appropriated for the financial assets with credit impairment occurred. The financial assets with credit impairment are as follows:

	Total book value	Provision for impairment	Total risk exposure amount (Amortized cost)
Impaired financial assets:			
Discounts and loans	\$209,397	\$57,657	\$151,740
Total financial assets with impairment	\$209,397	\$57,657	\$151,740

4. Liquidity risk

(1) Sources and definitions of liquidity risk

The definition of the Company's liquidity risk refers to the possible financial losses due to the inability of having assets cashed or obtaining loans to have the funds needed to liquidate the financial liabilities, for example, depositors' terminating deposits before the maturity date, financing channels and conditions for inter-bank lending become worse or difficult due to specific market influences. Also, the debtor's credit default situation has deteriorated, which makes the recovery of funds abnormal and the realization of financial instruments difficult. The aforementioned circumstances may weaken the Company's source of cash for financial activities, such as, loans, trading, and investment. In an extreme situation, the lack of liquidity may result in a decline in the position of the balance sheet, the sale of the asset, or the failure in meeting the borrowing commitment. Liquidity risk exists in the

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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inherent risks of all banking operations and may be affected by various industry-specific or market-wide events, including but not limited to: credit events, mergers or acquisitions, systemic impact, and natural disasters.

(2) Liquidity risk management policy

The liquidity management procedures of the Company are executed separately in the Finance Department and the Risk Management Department. However, the branches are required to notify the Finance Department of the funding gap for the unified control of the Finance Department and are monitored by the independent Risk Management Department. The procedures include:

- ① Perform daily fund scheduling and monitor future cash flows to ensure the fulfillment of various needs.
- ② Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.
- ③ Monitor the liquidity ratio of the balance sheet in accordance with the internal management purposes and external regulatory requirements.

The monitoring process is based on the measurement and speculation of the future flow of funds for one day and one month (such timeframe is for the management of liquidity risk by the Company). The estimation of future cash flows begins with an analysis of the contractual maturity date of financial liabilities and the expected cash realization date of financial assets. The Risk Management Department of the Company also monitors the extent and pattern of contingent liabilities, such as mid-term and long-term borrowing commitments, discount quotas, and guarantee letters.

Relevant information is regularly reported to the Company's Risk Management Committee and the Board of Directors.

- (3) Regarding the financial liabilities held for the purpose of managing the liquidity risk, the due date of the Company's financial liability contracts is summarized in the table below. The amounts disclosed in the table are based on the contractual cash flows, so the amount disclosed in some of the projects does not correspond to the related items on the balance sheet.

2018.12.31

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial instruments</u>					
Due to Central Bank and other banks	\$17,632,276	\$2,304,975	\$-	\$-	\$19,937,251
Funds borrowed from Central Bank and other banks	2,458,640	-	-	-	2,458,640
Bills and bonds sold under repurchase agreements	22,255,969	7,060,527	-	-	29,316,496
Deposits and remittances	17,799,131	22,386,111	67,842,625	80,649,433	188,677,300
<u>Derivatives</u>					
Derivative financial instruments measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	\$4,187,338	\$-	\$-	\$-	\$4,187,338
Cash inflow	4,176,667	-	-	-	4,176,667
Net cash flow	\$(10,671)	\$-	\$-	\$-	\$(10,671)

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2017.12.31

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
<u>Non-derivative financial instruments</u>					
Due to Central Bank and other banks	\$21,373,988	\$895,440	\$-	\$-	\$22,269,428
Funds borrowed from Central Bank and other banks	4,755,680	-	-	-	4,755,680
Bills and bonds sold under repurchase agreements	16,165,094	5,194,711	-	-	21,359,805
Customer deposits and remittances	16,610,429	21,788,548	68,733,002	73,588,002	180,719,981
<u>Derivatives financial instruments</u>					
Financial liabilities measured at fair value through profit or loss case					
Foreign exchange derivatives					
Cash outflow	\$3,284,391	\$1,327,285	\$-	\$-	\$4,611,676
Cash inflow	3,211,838	1,271,936	-	-	4,483,774
Net cash flow	<u>\$ (72,553)</u>	<u>\$ (55,349)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ (127,902)</u>

5. Market Risk

(1) Source and definition of market risk

Market risk refers to the loss of the positions that may occur on and off the balance sheet due to the changes in market prices. The so-called market price refers to interest rate, exchange rate, stock price, and product price.

The Company shall classify the holding position into a trading book and a banking book according to its purpose. The market risks faced by each position can be divided into four risk categories: interest rate, equity securities, foreign exchange, and product.

- ① The "trading book" includes the position of the financial products (including goods and derivative financial products) and physical products held for the purpose of trading or for the risk hedging of the trading book position. The term "trading purpose" stated in the preceding paragraph refers to the intention of a short-term gain or to generate or secure the arbitrage from actual or expected short-term price fluctuations.
- ② Financial products and physical products that are not held for the aforementioned purpose are within the scope of the "banking book".
- ③ Market risk management scope:
 - I. For interest rates and equity securities, it is only necessary to compute the capital needed for market risk of the trading book.
 - II. For foreign exchange and products, it is necessary to compute the capital needed for all market risks.

(2) Market risk management strategy

- ① Market risk management strategies should be documented to explain market risk management objectives and to ensure consistency in market risk management of the Company.
- ② The market risk management strategies are subject to appropriate adjustments in response to the Company's operating environment and changes in risk, maintain consistency with the Company's business strategies and objectives, and cover all key market risks associated with the business.
- ③ The market risk management strategies shall include at least the following:
 - I. Market risk measurement methods: including qualitative and quantitative methods

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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- II. Market risk monitoring methods: such as limits management, stop-loss mechanism, etc.
- III. The Company shall establish an approval hierarchy and regulate the standard operating procedure for overrun.

(3) Market risk management process

The market risk management process includes risk identification, measurement, communication, and monitoring. The Company shall effectively identify, measure, communicate, and monitor market risks associated with all major trading products, trading activities, processes, and systems.

① Risk identification

- I. The so-called market risk factor refers to the market ratio and price that influence the price of the position. The Company's risk measurement system should have sufficient risk factors to measure the risks in the on- and off-balance sheet trading position.
- II. For any structured financial product, the market risk factors of each part should be identified in order to provide the basis for a correct measurement of the market risk exposure of the structured product.
- III. The selection of risk factors includes interest rates, exchange rates, equity securities prices, and product prices.
- IV. Each unit of the Company shall identify the market risk in business activities or financial products.

② Risk measurement

- I. The risk management personnel of the Company's business trading units shall establish reasonable verification and control procedures for the sources of market data, such as, product market price, interest rate, and exchange rate.
- II. When risk management personnel of the business transaction units measure market risk, they should consider the market liquidity risk caused by insufficient market depth, low market transparency, or market disorder.
- III. The risk management personnel of the financial transaction unit shall evaluate the trading position at least daily according to the market price. All model parameters should be evaluated daily if the model is used for evaluation.
- IV. The Company should develop a measure for measuring the overall position risk exposure according to the scale and complexity of the portfolio held. Also, avoid excessive concentration of the investment portfolio on a certain risk factor. When performing risk measurement, the individual risk of the subject matter of the transaction and the possible risk dispersion effect should be considered by evaluating the volatility and correlation of the subject matter of the transaction. And a position with poor liquidity or insufficient market price transparency should be evaluated conservatively in order to fully assess the market risks faced by the Company.

③ Risk communication

- I. Internal report
 - i. Market risk reports are to regularly provide accurate, consistent, and timely information to senior executives as a reference for their decisions.
 - ii. The Company should establish various operating procedures to ensure that overruns and exceptions (e.g. violations of policies and procedures) can be immediately reported to the governing management.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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II. External disclosure

- i. The market risks faced by the Company should be fully disclosed.
- ii. The computed capital of the following risks should be disclosed:
Interest rate risk, equity securities risk, foreign exchange risk, and product risk.
- iii. The extent of information disclosure should be in line with the scale, risk profile, and complexity of the Company's sales operations.

④ Risk monitoring

- I. Each business unit of the Company shall establish a transaction limit system, which shall be controlled by the risk management personnel on a daily basis. If there is a lack of risk management, such as, overrun or other special circumstances, it shall be reported in due course to facilitate the adoption of the response measures.
- II. The status of the transaction shall be monitored immediately and comprehensively, such as whether the changes in position, changes in profit or loss, trading patterns, and subject matter of the transaction are within the scope of business authorization.
- III. Information needed for the review of financial products valuation should be obtained by the Company externally or through a channel other than the trading unit in order to avoid manipulation of price data due to conflicts of interest.
- IV. The Company shall stipulate the limits management, stop-loss mechanism, and overrun process to effectively monitor market risks.
 - i. Limits management
The responsible business department shall set the limits for financial product transactions according to the product characteristics and authorization hierarchy, such as, traders, risk category, counterparty's trading position limits, stop-loss limits, etc.
 - ii. Stop-loss mechanism
The responsible business department shall establish a clear stop-loss mechanism and implement it to effectively control the loss within the expected range.
 - iii. Overrun processing
The responsible business department shall clearly establish a defined limit and overrun mechanism and implement it to effectively handle the extraordinary cases.

(4) Trading book risk management policy

When handling various financial transactions, it should be divided into trading books and banking books according to the intention of holding, which are defined as follows:

- ① The scope and definition of the trading book: The trading book includes the position held for the purpose of trading or risk hedging of the trading book. The position must be free from any contractual restrictions in trade, or the risk can be completely hedged. The positions included in the trading book are summarized as follows:

- I. The positions held for earning a profit from the actual or expected spread.
- II. The positions held for earning a profit from other price changes.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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- III. The position held due to engaging in the brokerage and trade business.
- IV. The position held to offset all or most of the risks of another asset position or portfolio on the trading book.
- V. All positions that can be traded within the predetermined investment amount.

② Trading Book Authorization Projects:

- I. Monetary market transactions: short-term bill (bond) within one year
- II. Capital market transactions: More than one year government bonds, corporate bonds, financial bonds, beneficiary securities, asset securitization bonds, stocks, various types of fund beneficiary certificates, and convertible corporate bonds.
- III. Derivative financial product transactions: including exchange rates, interest rates and stocks, etc.
- IV. Foreign exchange market transactions: foreign exchange spot, swap, forward foreign exchange, and forward rate agreement

③ Evaluation mechanism of the transaction book:

The evaluation mechanism of the Company's trading book position shall be handled by the risk management personnel who are independent of the trading desk. The trading book position shall be valued on a daily or weekly basis in accordance with the "Market to Market Method" with information from an independent source and readily available, such as, exchange prices, electronic screen quotes, or quotes from independent brokers, which should be presented to the Board of Directors for approval and future reference.

④ Management specifications and procedures for the position limits, monitoring, early warning, stop-loss, and reporting: It should be handled in accordance with the Company's "Regulations Governing Market Risk", "Regulations Governing Security Investment", "Regulations Governing Derivatives Transactions", "Regulations Governing Foreign Exchange Business", "Regulations Governing Loans Business", "Interest Rate Risk Management Policy", "Liquidity Risk Management Policy", and other relevant regulations.

(5) Management of interest rate risk in banking book

① Management strategy and process

Make adequate adjustment to respond to the changes in the Company's operating environment and the changes in risks. Maintain the Company's operational strategies and deepen the Company's operations. Enhance the performance of the Company's asset portfolio. Assess the impact of changes in interest rate on economic value or earnings. Establish the interest rate risk in banking book control mechanism in accordance with the "Regulations Governing Interest Rate Risks in Banking Book", which is implemented in accordance with the procedures of identification, measurement, communication, and monitoring, so that the interest rate risk is maintained at an appropriate level. Consistency of objectives and coverage of all important interest rate risks in banking book associated with the business.

② Management organization and structure

A. The Board of Directors is the highest decision-making authority of the

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
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Company's interest rate risk in banking book management and bears ultimate responsibility for the Company's interest rate risk in banking book.

- B. The Asset and Liability Management Committee is responsible for assessing the Company's operating performance, capital position, asset and liability risk position and interest rate sensitivity, as well as researching and adjusting the best ratio of various assets and liabilities, and evaluating the Company's deposit and loan interest rate pricing strategy.
- C. The Risk Management Committee is responsible for implementing the interest rate risk in banking book management decisions approved by the Board of Directors, coordinating the interest rate risk in banking book management matters, and continuously monitoring the performance of risk management.
- D. The Risk Management Department is the exclusive unit for the Company's interest rate risk in banking book management. It is responsible for planning, establishing, and integrating the Company's interest rate risk in banking book management operations, and implementing the Company's overall interest rate risk in banking book management and monitoring work in order to assess the impact of changes in interest rate on the economic value or earnings. Also, regularly aggregating the Company's interest rate risk in banking book management information and then report it to the Risk Management Committee and the Board of Directors, and disclose risk management information according to the regulations of the competent authorities.
- E. The business units in the head office are responsible for setting and managing the respective regulations and operating procedures for the interest rate risks in banking book, and assisting the Risk Management Department to manage the interest rate risk position related to their business.
- F. All units (including business units) of the Company are responsible for identifying the interest rate risks in the banking book, cooperating with the implementation of the interest rate risk in banking book management decisions, and adopting the risk offset treatment method or response measures approved by the GM to operate and adjust the interest rate risk exposure position on and off the balance sheet.

③ Risk reporting/measurement system scope, characteristics, and frequency

The Company makes the "Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio" the monitoring and management index to control the Company's interest rate risk in the banking book within the tolerance, and reports it to the Risk Management Committee on a monthly basis. Analyze the changes and compare them to the conditions of the last month. Provide executives with correct, consistent, and prompt information as a reference for their decision-making and have it disclosed in the risk control report to the Board of Directors on a quarterly basis. The content and scope of the risk control report are as follows: (I) Measurement indicators: 1. Earnings perspective (interest rate risk warning and reporting) 2. Economic value (Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio); (II) Stress test: (1) the impact of changes in interest rate on the next year "earnings" (2) the impact of changes in interest rates on economic value. The Information Department and the business units are to provide the information of relevant electronic files or written materials to the Risk Management Department in order to effectively grasp the overall risk position and to provide appropriate risk measurement results in order to assist with the interest rate risk in

banking book management.

④ Risk hedging/risk-reducing policies and strategies and processes for keeping the monitoring and hedging/reducing risk tools effective continuously

When handling banking book interest rate risk related businesses and transactions, assess the probability of occurrence of the event or transaction loss and the severity of the loss. Also, adopt countermeasures, such as, risk hedging, risk reduction or transfer, risk control, and risk endurance.

In case of special circumstances that may seriously affect the Company's earnings or economic value, the Risk Management Department or the business units in the head office shall report it to the GM and adopt appropriate risk offset methods or response measures to reduce the banking book interest rate sensitivity net impacted position or increase the Company's capital.

(6) Market risk assessment technology

① Stress test

The stress test is to assess the Company's risk tolerance ability under a stress scenario so the Company can then develop specific and feasible hedging strategies and response plans in order to monitor possible changes in risk conditions under various scenarios. Also, the Board of Directors and the executives determine whether the Company's risk exposure is consistent with its risk appetite and it is one of the important tools for identifying, measuring, and controlling capital adequacy and liquidity planning decisions.

※ The Company has investments classified according to the investment classification principle:

A. Domestic and foreign bonds and bills and equity investments in banking books

a. Domestic bond investment: The book value on the base date is treated as the exposure at default (EAD) and included for calculation. The default rate (PD) is calculated according to the risk linked indicator and referring to the default rate table, and the loss given default (LGD) is divided into with and without guarantee, which are estimated separately by referring to the experience of recovery.

b. Domestic equity investment: The book value on the base date is treated as the exposure at default (EAD). The probability of default (PD) is estimated by referring to the stress test of the credit risk of the credit position, and the loss given default (LGD) is estimated at 100% since the probability of recovery is very small.

c. Foreign bills and bonds and equity investments: The assets related to foreign bill and bond investments and equity investments has a fixed loss rate (PD*LGD) given to calculate the expected losses under stress scenario. Of which, the probability of default for national risk exposure is mainly based on the results of its external evaluation. Also, perform a stress test only on the more serious scenarios. The probability of default for other risks is given respectively depending on whether the counterparty is in the financial industry. For the calculation of the exposure at default, the investment position is calculated on the basis of the book value.

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B. Securities and derivative products transactions in the trading book

Based on the current calculation of the market risk stress test of the second pillar, the Company uses market risk factor sensitivity analysis to calculate the impact on profit or loss arising from asset impairment due to the changes in risk factors, including equity security, interest rates, gold and exchange rates, products, and credit-derived products. The change in each risk factor produces different benefits and losses in proportion to minor and severe scenarios. In the interval between various risk factors and domestic and foreign scenarios, the amount of change in the same scenario may cause some positions with benefits generated and other positions with losses resulted. Choose those with greater fluctuations in each scenario for calculation, which become the estimated loss amount under the stress scenario.

② Sensitivity Analysis

Test items: For the main trading book positions in different markets, if the computed market risk capital of the position accounts for more than 5% of the total market risk capital, the listed scenario test is carried out.

A. Interest rate risk

Assume that all factors are given, if the yield curve of all markets in the world shifted downward/upward by 100 base points on December 31, 2018, the Company's net profit or loss would increase/decrease by NT\$1,888,496 thousand, respectively.

B. Exchange rate risk

The Company assumes that all other variable factors are given, if the major currency exchange rates on December 31, 2018 were relatively appreciated/depreciated by 3%, the Company's net profit or loss before tax would increase/decrease by NT\$8,871 thousand, respectively. Of which, the main currencies are the US dollar, euro, and yen.

C. Equity securities price risk

The Company assumes that all other variable factors are given, if the price of equity securities increased/decreased by 15% on December 31, 2018, the Company's net profit or loss before tax would increase/decrease by NT\$1,061,908 thousand, respectively.

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D. Sensitivity analysis is compiled as follows:
2018.01.01 ~ 2018.12.31

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	1,061,908	2,390,595	44.42%
	Major stock markets - 15 %	(1,061,908)		-44.42%
Interest rate market	Main interest rate + 100bp	(1,888,496)		-79.00%
	Main interest rate - 100bp	1,888,496		79.00%
Foreign exchange market	Main currency +3%	8,871		0.37%
	Main currency -3 %	(8,871)		-0.37%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,941,533)		-123.05%

2017.01.01 ~ 2017.12.31

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	\$765,920	1,879,381	40.75%
	Major stock markets - 15 %	(765,920)		-40.75%
Interest rate market	Main interest rate + 100bp	(1,578,504)		-83.99%
	Main interest rate - 100bp	1,578,504		83.99%
Foreign exchange market	Main currency +3%	10,891		0.58%
	Main currency -3 %	(10,891)		-0.58%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,333,533)		-124.16%

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(7) Exchange rate risk concentration information

The Company's foreign currency financial assets and liabilities with significant impact are as follows:

	2018.12.31			2017.12.31		
	Foreign currency (NT\$ thousand)	Exchan ge rate	NTD	Foreign currency (NT\$ thousand)	Exchan ge rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$1,464,767	30.73	\$45,016,674	\$1,472,571	29.85	\$43,953,303
HKD	101,591	3.92	398,642	8,737	3.82	33,367
AUD	3,735	21.68	80,953	4,156	23.25	96,651
JPY	2,960,152	0.28	823,810	3,052,565	0.26	808,625
EUR	4,576	35.22	161,170	3,636	35.68	129,716
RMB	721,785	4.48	3,230,639	849,967	4.58	3,892,425
<u>Non-Currency</u>	-	-	-	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$1,547,009	30.73	\$47,544,224	\$1,427,916	29.85	\$42,620,427
HKD	10,940	3.92	42,928	8,268	3.82	31,576
AUD	45,089	21.68	977,341	40,932	23.25	951,849
JPY	1,484,524	0.28	413,143	1,015,044	0.26	268,885
EUR	4,491	35.22	158,168	3,318	35.68	118,371
RMB	319,247	4.48	1,428,918	349,800	4.58	1,601,909
<u>Non-Currency</u>	-	-	-	-	-	-

Due to the wide variety of foreign currencies of the Company, it is impossible to disclose the exchange gains and losses information of monetary financial assets and financial liabilities by each foreign currency with significant impact. The Company's foreign currency exchange gains and losses from January 1 to December 31, 2018 and 2017 were NT\$161,600 thousand and NT\$94,866 thousand, respectively.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

XV. Capital management

1. Overview

In response to the trend of capital management, the Company's overall business monitoring indicators are established to match the business development strategy and to reflect the overall risk situation. The various capital management indicators of the Company are as follows:

- (1) The Company's overall capital adequacy ratio shall not be less than 10.5%.
- (2) Category I capital shall not be less than 8.5% of the total risk assets.
- (3) The common stock equity shall not be less than 7.0% of the total risk assets.
- (4) The total business reserve and allowance for bad debt as stated in Category II capital with a credit risk standard adopted shall not exceed 1.25% of the total amount of credit risk and weighted risk assets.

2. Capital management procedure

- (1) The Company's capital management objectives are based on the "Legal Capital:"
Legal Capital Management Objectives: To meet the legal capital requirements of the supervisory authority, set the Company's capital adequacy ratio target, and ensure that the Company can operate safely and steadily.

(2) Legal capital management

① Demand legal capital

The Company uses the method prescribed by the supervisory authority to calculate the unanticipated losses arising from the credit risk, market risk, and operational risk under the existing assets and operating conditions, and compute the relative capital in response to the situation accordingly.

② Legal capital available

The Company's legal capital available is based on the rules published by the competent authorities to have the Company's capital classified by its source and characteristics as follows:

Category I capital: refers to the common stock equity net of the intangible assets, the deferred income tax assets arising from the losses of previous years, the business reserve and the insufficient appropriation of the allowance for bad debt, the revaluation increments of real estate, the unamortized loss of the bad debts sold, and other legal adjustment items specified and stipulated according to the calculation methods.

Common stock equity: Includes common stock and its premium on capital stock, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its premium on capital stock, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and non-cumulative subordinated bonds without a

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

maturity date.

Category II capital: Includes perpetual cumulative preferred stock and its premium on capital stock, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its premium on capital stock, real estate first-time subject to the application of International Accounting Standards, increase of retained earnings arising from the fair value or the revaluation value used as the cost, the valuation increments arising from the subsequent measurement of the investment real estate at the fair value and 45% of the unrealized benefits of the financial assets measured at fair value through other comprehensive income, business reserve and allowances for bad debts, perpetual cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its premium on capital stock.

The allowance for bad debt included in Category II capital in the preceding paragraph refers to the amount that the Company's allowance for bad debt exceeds the estimated loss of the Company based on historical losses.

- ③ The management of legal capital is to convert the unanticipated losses of each risk to the total amount of risk assets, and then have the legal capital available divided by the total amount of the risk assets to calculate the capital adequacy ratio. The basic objective is to ensure that the Company's capital adequacy ratio is maintained above the mandatory legal ratio.

(3) Capital Adequacy

The Company's qualified regulatory capital ratio and risk assets ratio on December 31, 2018 and 2017 were 14.04% and 15.57%, respectively, which were in line with the capital management regulations of the competent authorities.

XVI. Notes of disclosure

1. Information on significant transactions

- (1) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (2) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (3) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (4) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
- (5) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (6) Information regarding sale of NPL: None.

Notes to the financial statements of King's Town Bank Co., Ltd. (continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

- (7) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None.
- (8) Business relationships or important transactions and amounts between the parent company and subsidiary and among subsidiaries: None.
- (9) Other important transactions sufficient to affect the policy to use financial statements: None.

2. Information on investee companies and total shareholding in investee companies

- (1) Information regarding investees and total shareholdings: Please refer to Table 1.
- (2) Loans to others: None.
- (3) Endorsements/guarantees to others: None.
- (4) Marketable securities – end: See Attached table 2.
- (5) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (6) Information on trading in derivative instruments: None
- (7) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (8) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (9) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
- (10) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
- (11) Information regarding sale of NPL: None.
- (12) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
- (13) Other important transactions sufficient to affect the policy to use financial statements: None.

3. Setting up branches and investments in Mainland China

No such event.

4. Disclosure of other supplementary information

- (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV. 3 (14) and Table 3 for details.
- (2) Quality of assets: Detailed in Table 4.
- (3) NPL or non-performing receivable accounts exempted from report: See Attached table 5.
- (4) Concentration of credit risk: Please refer to Table 6 and Table 6-1.
- (5) Interest rate sensitivity assets and liabilities analysis data: See Attached table 7 and 7-1.
- (6) Profitability: Please refer to Table 8 for details.
- (7) Maturity date analysis: Please refer to Table 9 and Table 9-1 for details.
- (8) Capital Adequacy: See Attached table 10.

XVII. Department information

The company has disclosed the department information in the consolidated financial statements.

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 1

2018.01.01~2018.12.31

Information on and proportionate share in investees :

Investee Company (Note 1)	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain	Proportionate Share of the Bank and its Affiliates in Investees (Note1)				Remarks
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership	
Tainan Life Insurance Agent Co., Ltd.	Taiwan	Life Insurance Agent	100.00%	\$363,699	\$163,420	3,000	-	3,000	100.00	
Fu Chen Property Insurance Agent Co., Ltd.	Taiwan	Property Insurance Agent	100.00%	6,197	1,493	300	-	300	100.00	
KTB International Leasing Co., Ltd.	Taiwan	Leasing	100.00%	618,747	74,198	55,965	-	55,965	100.00	
KTB International Real Estate Management Co., Ltd.	Taiwan	Real Estate Management	100.00%	14,421	3,746	1,000	-	1,000	100.00	

- Note:
1. Please list separately for financial related businesses and non-financial related businesses.
 2. Shares or pro forma shares held by the Bank, directors, supervisors, president, vice president and affiliates have been included in accordance with the Company Act.
 3. Pro forma shares are shares that are assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.
 - (1)Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of "Securities and Exchange Law Enforcement Rules."
 - (2)Derivative contracts, such as stock options, are those conforming to the definition of derivatives in International Accounting Standards No. 39.
 4. This table may not be disclosed in the financial statements for Q1 and Q3.

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 2

The securities held at the end of the period (excluding investment in subsidiaries, associates, and joint venture):

Holding company	Types and names of securities (Note 1)	Relationship with the securities issuer	Account titles in book	At the end of period				Remarks
				Shares (Thousand Shares)	Book value	Ratio of Shareholding	Fair value	
KTB International Leasing Co., Ltd.	Bank of Panhsin Co., Ltd.	Financial assets at fair value through other comprehensive profit or loss	Financial assets at fair value through other comprehensive profit or loss	10,600	\$66,674	0.78%	\$66,674	
KTB International Leasing Co., Ltd.	Hoyii Life Co., Ltd.	Financial assets at fair value through other comprehensive profit or loss	Financial assets at fair value through other comprehensive profit or loss	526	\$7,916	2.49%	\$7,916	
KTB International Leasing Co., Ltd.	Forest Water Environmental Engineering Co., Ltd.	Financial assets mandatorily measured at fair value through profit or loss	Financial assets mandatorily measured at fair value through profit or loss	3,500	\$196,700	2.65%	\$196,700	
KTB International Leasing Co., Ltd.	Radium Life Tech Co., Ltd.	Financial assets mandatorily measured at fair value through profit or loss	Financial assets mandatorily measured at fair value through profit or loss	1,500	\$20,625	0.17%	\$20,625	
Tainan Life Insurance Agent Co., Ltd.	MiTAC Holdings Corporation.	Financial assets mandatorily measured at fair value through profit or loss	Financial assets mandatorily measured at fair value through profit or loss	4,461	\$109,964	0.47%	\$109,964	

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, "Financial Instruments".

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 3

Details of Assessed Impairment of Loans and Receivable

Loans

Item		Total loans	Allowance
		December 31, 2017	December 31, 2017
With individual objective evidence of impairment	Individual assessment of impairment	\$249,100	\$141,047
	Combined assessment of impairment	261,029	73,050
Without individual objective evidence of impairment	Combined assessment of impairment	144,675,467	2,023,634

Note: The total loans amount refers to the amount originally generated before deducting the allowance for bad debt and before deducting (adding) the discount (premium).

Receivables (including collections transferred from non-loan)

Item		Total receivables	Allowance
		December 31, 2017	December 31, 2017
With individual objective evidence of impairment	Individual assessment of impairment	\$11,454	\$8,428
	Combined assessment of impairment	4,647	1,867
Without individual objective evidence of impairment	Combined assessment of impairment	985,399	41,140

Note: The total receivables amount refers to the amount originally generated before deducting the allowance for bad debt and before deducting (adding) the discount (premium).

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 4

Asset quality

Non-performing loans and overdue accounts

Unit: NTD thousand, %

Year and month		December 31, 2018					December 31, 2017				
Business category/Items		Non-performing loan amount (Note 1)	Total loans	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)	Non-performing loan amount (Note 1)	Total loans	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)
Corporate banking	Secured	\$11,881	\$83,864,153	0.01%	\$1,311,246	11,036.50%	\$18,442	\$85,712,870	0.02%	\$1,122,723	6,087.86%
	Non-secured	-	51,749,234	-	745,687	-	-	40,628,343	-	858,822	-
Consumer banking	Residential mortgage loans (Note 4)	21,920	14,907,763	0.15%	250,625	1,143.36%	14,888	11,089,118	0.13%	93,448	627.67%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small credit loans (Note 5)	310	91,104	0.34%	5,307	1,711.94%	804	114,758	0.70%	108,214	13,459.45%
	Others (Note 6)	Secured	380	3,924,877	0.01%	52,538	13,810.63%	-	7,640,507	-	54,524
	Non-secured	-	59,844	-	1,820	-	-	-	-	-	-
Total amount		\$34,491	\$154,596,975	0.02%	\$2,367,223	6,863.31%	\$34,134	\$145,185,596	0.02%	\$2,237,731	6,555.68%
		NPL amount	Balance of receivable accounts	Overdue account Proportion	Allowance for bad debt Amount	Allowance for bad debt coverage rate	NPL amount	Balance of receivable accounts	Overdue account Proportion	Allowance for bad debt Amount	Allowance for bad debt coverage rate
Credit card		\$813	\$813	100.00%	\$700	86.10%	\$1,379	\$1,379	100.00%	\$1,487	107.83%
Non-recourse receivables factoring business (Note 7)		-	-	-	-	-	-	-	-	-	-

Note 1: Nonperforming loans are in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005 (Ref. No. Jin-Guan-Yin (4) 0944000378).

Note 2: Nonperforming loans ratio = Nonperforming loans ÷ Loans

Nonperforming loans of credit card ratio = Nonperforming loans of credit cards ÷ Accounts receivable

Note 3: Coverage ratio of allowance for loan losses = Allowance for loan losses ÷ Nonperforming loans

Note 4: Mortgage loans are for applicants to build or repair the buildings owned by the applicants, their spouses or their minor children. These applicants provide their buildings as collaterals and assign the right on mortgage to financial institutions.

Note 5: Credit loans are defined in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin-Guan-Yin (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note 6: The others of consumer financial business are defined as secured or unsecured consumer financial business excluding mortgage loans, cash cards, credit loans and credit cards.

Note 7: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin-Guan-Yin (5) 094000494), accounts receivable without recourse are classified as non-performing loans if not compensated by the factor or insurance company within year.

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 5

NPL or non-performing receivable accounts exempted from report

	December 31, 2018		December 31, 2017	
	Total NPL exempted from report	Total non-performing receivable accounts exempted from report	Total NPL exempted from report	Total non-performing receivable accounts exempted from report
Exempted amount after a debt negotiation and contractual performance (Note 1)	\$5,658	\$105	\$8,473	\$130
Performance of debt clearance program and rehabilitation program (Note 2)	18,134	110	26,012	152
Total	\$23,792	\$215	\$34,485	\$282

Note 1: Disclosed in accordance with the Letter issued by the Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note 2: Disclosed in accordance with the letter issued by the Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2018		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,471,822	21.24%
2	Company (Group) B - General product wholesale business	5,667,055	16.11%
3	Company (Group) C - Unclassified other financial service business	4,500,000	12.79%
4	Company (Group) D - Solar Cell Manufacturing business	4,265,540	12.12%
5	Company (Group) E - Real Estate Development business	3,815,217	10.84%
6	Company (Group) F - Power supply business	3,546,733	10.08%
7	Company (Group) G - Wire & Cable manufacturing business	2,914,198	8.28%
8	Company (Group) H - Unclassified other financial service business	2,817,115	8.01%
9	Company (Group) I - Real Estate Rental and Sale business	2,740,530	7.79%
10	Company J - Computers and peripheral equipment and software retailing business	2,384,967	6.78%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Rules of TSEC’s Criteria for Reviewing Listing of Marketable Securities”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6-1

Concentration of credit risk

Unit: NTD thousand, %

Year	December 31, 2017		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,378,660	19.96%
2	Company (Group) B - Cable Telecommunications	5,901,648	15.97%
3	Company (Group) C - Unclassified other electronic components manufacturing business	4,855,907	13.14%
4	Company (Group) D - Unclassified other financial services business	4,700,000	12.72%
5	Company (Group) E - Wire and Cable manufacturing business	4,271,453	11.56%
6	Company (Group) F - Power supply business	3,817,817	10.33%
7	Company (Group) G - Cable Telecommunications	3,290,423	8.90%
8	Company (Group) H - General product wholesale business	2,900,000	7.85%
9	Company (Group) I - Real Estate Rental and Sale business	2,755,900	7.46%
10	Company (Group) J - Real Estate Development business	2,739,706	7.41%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of “code” + “industry” [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the “detailed category” according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of “Supplementary Rules of TSEC’s Criteria for Reviewing Listing of Marketable Securities”.

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7

Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

2018.1.1~2018.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$166,900,620	\$3,528,581	\$9,675,400	\$31,557,092	\$211,661,693
Interest-sensitive liabilities	161,791,613	7,634,612	16,712,961	1,491,510	187,630,696
Interest sensitivity gap	5,109,007	(4,106,031)	(7,037,561)	30,065,582	24,030,997
Net equity					34,212,235
Ratio of interest-sensitive assets to liabilities					112.81
Ratio of interest sensitivity gap to net equity					70.24

2017.1.1~2017.12.31

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$159,323,926	\$5,460,237	\$787,967	\$39,405,511	\$204,977,641
Interest-sensitive liabilities	150,601,402	9,170,569	19,256,612	2,218,205	181,246,788
Interest sensitivity gap	8,722,524	(3,710,332)	(18,468,645)	37,187,306	23,730,853
Net equity					32,920,983
Ratio of interest-sensitive assets to liabilities					113.09
Ratio of interest sensitivity gap to net equity					72.08

- Note:
1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
 2. Interest-sensitive assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
 3. Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities.
 4. Interest-sensitive assets and liabilities rate=Interest-sensitive assets ÷ interest-sensitive liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7-1

Interest rate sensitivity assets and liabilities analysis data (USD)

2018.1.1~2018.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$316,753	\$2,299	\$-	\$-	\$319,052
Interest-sensitive liabilities	1,478,069	23,770	39,615	-	1,541,454
Interest sensitivity gap	(1,161,316)	(21,471)	(39,615)	-	(1,222,402)
Net equity					(1,202,842)
Ratio of interest-sensitive assets to liabilities					20.70
Ratio of interest sensitivity gap to net equity					101.63

2017.1.1~2017.12.31

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest-sensitive assets	\$254,820	\$48,486	\$41,096	\$1,094,162	\$1,438,564
Interest-sensitive liabilities	1,311,486	44,838	66,545	-	1,422,869
Interest sensitivity gap	(1,056,666)	3,648	(25,449)	1,094,162	15,695
Net equity					135,312
Ratio of interest-sensitive assets to liabilities					101.10
Ratio of interest sensitivity gap to net equity					11.60

- Note:
1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
 2. Interest-sensitive assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
 3. Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities.
 4. Interest-sensitive assets and liabilities rate=Interest-sensitive assets ÷ interest-sensitive liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 8

Profitability

Unit: %

Item		107.12.31	106.12.31
ROA	Pretax	1.28	2.49
	After tax	1.05	2.18
ROE	Pretax	9.72	18.35
	After tax	7.98	16.08
Net profit rate		42.08	63.19

- (Note):
1. ROA = Income before (after) taxation / Average total assets
 2. ROE=Income before (after) taxation / Average net equity
 3. Profit rate = Income after taxation / Net income
 4. Income before (after) taxation means the income accumulated from January of the current year until the current quarter

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9

Analysis of maturity structure of NTD

2018.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$229,760,884	\$64,571,579	\$9,767,412	\$19,047,650	\$47,042,010	\$89,332,233
Outward remittance of due fund	244,571,868	27,012,109	32,414,978	27,714,173	42,032,167	115,398,441
Period Difference	(14,810,984)	37,559,470	(22,647,566)	(8,666,523)	5,009,843	(26,066,208)

2017.12.31

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$221,798,037	\$59,096,729	\$7,726,761	\$17,319,568	\$31,304,964	\$106,350,015
Outward remittance of due fund	244,680,035	30,544,158	34,910,431	30,588,018	41,557,742	107,079,686
Period Difference	(22,881,998)	28,552,571	(27,183,670)	(13,268,450)	(10,252,778)	(729,671)

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9-1

USD maturity date structure analysis table

2018.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$455,838	\$146,087	\$3,790	\$22,419	\$12,045	\$271,497
Outward remittance of due fund	1,545,463	1,224,689	163,136	43,281	78,583	35,774
Period Difference	(1,089,625)	(1,078,602)	(159,346)	(20,862)	(66,538)	235,723

2017.12.31

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	\$1,559,338	\$96,109	\$34,611	\$44,139	\$49,089	\$1,335,390
Outward remittance of due fund	1,606,687	1,113,119	136,604	78,781	134,282	143,901
Period Difference	(47,349)	(1,017,010)	(101,993)	(34,642)	(85,193)	1,191,489

Notes to the financial statements of King's Town Bank Co., Ltd.(continued)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 10

Capital Adequacy (Explanation 1)

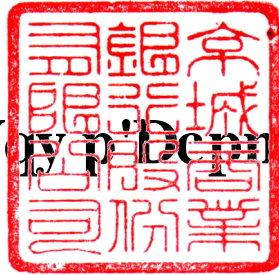
Unit: NTD thousand

Analytical items		Year (Explanation 2)	December 31, 2018	December 31, 2017
Eligible Capital	Common stock equity		\$33,293,116	\$34,063,996
	Other Tier I Capital		-	-
	Tier II Capital		211,547	885,604
	Eligible Capital		33,504,663	34,949,600
Total risk-weighted assets	Credit Risk	Standardized Approach	195,257,564	187,587,490
		Internal Ratings-Based Approach	-	-
		Asset Securitization	-	-
	Operation Risk	Basic Indicator Approach	13,510,439	13,437,529
		Standard Method /Optional Standard Method	-	-
		Advanced Measurement Approach	-	-
	Market Risk	Standardized Approach	29,882,439	23,492,259
		Internal Models Approach	-	-
	Total risk-weighted assets		238,650,442	224,517,278
	Capital adequacy ratio			14.04%
Ratio of common stock equity to risk-weighted assets			13.95%	15.17%
Ratio of Tier I capital to risk-weighted assets			13.95%	15.17%
Leverage ratio			11.11%	11.85%

Explanation:

- The amount of the regulatory capital, weighted risk assets, and total risk exposure should be calculated in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Description and Table of Calculation Methods for Capital and Risk Assets of Banks".
- The capital adequacy ratio for the current period and the previous period should be filled in the annual financial statement. The interim financial statements shall, in addition to disclosing the ratio of the current period and the previous period, also disclose the capital adequacy ratio at the end of the previous year.
- This table should demonstrate the following formula:
 - Eligible capital = Common stock equity + Other Tier I Capital + Tier II Capital
 - Total amount of risk-weighted-assets = Credit risk-weighted assets + Capital charge of (operational risk + market risk) x 12.5.
 - Capital Adequacy ratio = Total self-owned capital / Total amount risk-weighted assets.
 - Ratio of common stock equity to risk-weighted assets = Common stock equity / Total risk weighted assets.
 - Proportion of Category I capital to risk-weighted assets = (Common stock equity + Tier I Capital) / Total risk-weighted asset.
 - Leverage ratio = Tier I capital / Total exposure.
- This table may not be disclosed in the financial statements for Q1 and Q3.

民國九十年十二月一日



Chairman Chen-Chih Tai





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