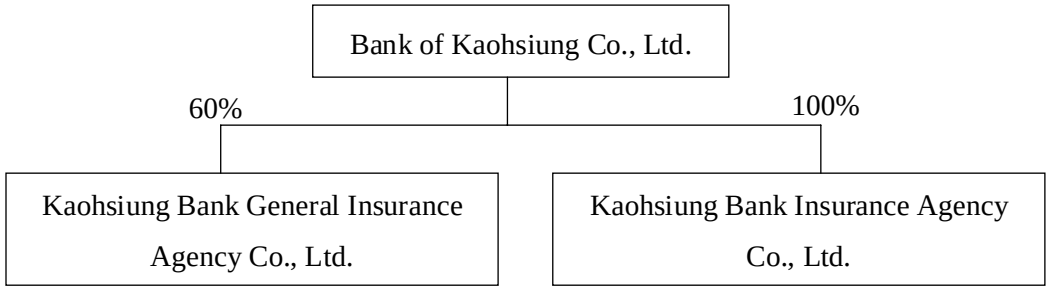
BANK OF KAOHSIUNG

Special Notes

1. Information on Related Enterprises

(1) Organization chart of related enterprises



(2) Basic Information of Related Enterprises

Name	Established Date	Address	Capital	Business Item
Kaohsiung Bank General Insurance Agency Co., Ltd.	Mar. 12,2002	2F, 350 Fu Min Rd. Tsoying District, Kaohsiung, Taiwan	5.00	Property Insurance Agent
Kaohsiung Bank Insurance Agency Co., Ltd.	Oct. 11,2002	2F, 350 Fu Min Rd. Tsoying District, Kaohsiung, Taiwan	2.00	Insurance Agent

(3) Same shareholders information of presumed control and subordinate:None

(4) Information of Directors & Supervisors of Related Enterprises.

Unit: share / %

Enterprise Name	Title	Name	Share Holding	
			Shares	Ratio (%)
Kaohsiung Bank General Insurance Agency Co., Ltd.	Chairman	Kuang-Erh Lai	300,000	60.00
	Director	Liu-Nan Chen	300,000	60.00
	Director	Ching-Kao Huang	300,000	60.00
	Director	Chien-Wen Chen	200	0.04
	Director	Tzung-Kuen Lee	200	0.04
	Supervisor	Hua-Jen Lee	300,000	60.00
	Supervisor	Ching-Tsan Chen	200	0.04
Kaohsiung Bank Insurance Agency Co., Ltd.	Chairman	Fang-Nan Liou	200,000	100.00
	Director	Mei-Chju Hung	200,000	100.00
	Director	Thai-Iang Lu	200,000	100.00
	Supervisor	Din-Lian Lin	200,000	100.00

(5) Review of Operations

Kaohsiung Bank General Insurance Agency Co., Ltd.

Kaohsiung Bank General Insurance Agency Co., Ltd.
Balance Sheets
Dec. 31, 2002

Unit:NT$

Assets	Amount in the current period	%	Liabilities and Net worth	Amount in the current period	%
Current assets			Liabilities		
Due to banks	1,591,200	27.40	Expense payable	473,418	8.15
Deposit in Bank-Demand					
Deposit in Bank-Time	4,000,000	68.87	Tax payable	36,139	0.62
Accounts Receivable	210,000	3.62	Operating income tax payable	64,603	1.11
Other accounts receivable	394				
Income tax prepayment	6,377	0.11			
Tolal current assets	5,807,971	100.00	Total liabilities	574,160	9.98
			Shareholders' Equities		
			Capital	5,000,000	86.09
			Accumulated earnings	233,811	4.03
			Total Retained earnings	5,233,811	90.12
Total assets	5,807,971	100.00	Total Liabilities and Shareholders' Equities	5,807,971	100.00

Kaohsiung Bank Genreal Insurance Agency Co., Ltd.
Statements of Income
From Jan. 1 to Dec. 31, 2002

Unit:NT$

Accounts	Amount	%
Operating revenue		
Agency revenue	1,289,305	100.00
Total operating revenue	1,289,305	100.00
Operating expense	807,488	62.63
Agency expense	248,700	19.29
Business expense	1,056,188	81.92
Total operating expense	233,117	18.08
Operation profit	233,117	18.08
Non-operating revenue		
Interest expense	65,297	5.06
Total non-operating revenue	65,297	5.06
Net income before income tax	298,414	23.15
Income tax expense	64,603	5.01
Net income after income tax	233,811	18.13

Kaohsiung Bank Insurance Agency Co., Ltd.

Kaohsiung Bank Insurance Agency Co., Ltd.
Balance Sheets
Dec. 31, 2002

Unit:NT$

Assets	Amount in the current period	%	Liabilities and Net worth	Amount in the current period	%
Current assets			Liabilities		
Deposit in Bank	1,922,699	21.41	Expense payable	4,937,713	55.01
Accounts Receivable	7,053,875	78.59	Tax payable	352,694	3.93
Income tax prepayment	352	0.00	Operating income tax payable	411,629	4.59
Tolal current assets	8,976,926	100.00	Total liabilities	5,702,036	63.53
			Shareholders' Equities		
			Capital	2,000,000	22.27
			Accumulated earnings	1,274,890	14.20
			Total Retained earnings	3,274,890	36.47
Total assets	8,976,926	100.00	Total Liabilities and Shareholders' Equities	8,976,926	100.00

Kaohsiung Bank Insurance Agency Co., Ltd.
Statements of Income
From Jan. 1 to Dec. 31, 2002

Unit:NT$

Accounts	Amount	%
Operating revenue		
Agency revenue	7,053,875	100.00
Total operating revenue	7,053,875	100.00
Operating expense	4,937,713	70.00
Agency expense	433,171	6.14
Business expense	5,370,884	76.14
Total operating expense	5,370,884	76.14
Operation profit	1,682,991	23.86
Non-operating revenue		
Interest expense	3,528	0.05
Total non-operating revenue	3,528	0.05
Net income before income tax	1,686,519	23.91
Income tax expense	411,629	5.84
Net income after income tax	1,274,890	18.07

2. Dividend Policy and Implementation Status

(1) Dividend Policy of BOK:

This institution is in the volatility environment, while the enterprise life cycle at the growth stage. In consideration of future capital demand and long-term financial planning as well as satisfying shareholders' demand on cash flow, the earnings listed on final statement should offset accumulated losses after income tax, then appropriated 30% as legal reserve, afterwards appropriated special reserve according to regulations of laws & decrees and operational needs. If there is balance, the distribution is made according to the following percentage:

A. Remuneration to directors and supervisors 2%.

B. Bonus to employees 8%.

C. Dividend to shareholders 90%.

The distribution of shareholders' dividend is dependent on earnings status of current fiscal year and operational needs. The board of directors propose the earnings distribution adjustment of ratio between cash dividend and stock dividend, however, the cash dividend could not be lower than 5% of stock dividend issued in the current fiscal year.

The legal reserve doesn't reach capital stock or the BIS ratios doesn't meet the requirements of Banking Law, the earnings appropriation & distribution will be handled in accordance with Banking Law and regulations of central competent authorities.

(2) The influence of stock dividends distribution for the past 2 years on the bank's operation results, earnings per share, and return on shareholder's equity were as follows.

Item \ Year			2001	2002	2003 (estimate)
Paid-in capital beginning of period (NT$ thousand)			4,486,843	4,486,843	4,576,580
Stock and dividends for current year	Cash dividend per share (NT$)		1.5	1.3	0.5
	Transfer to capital from earnings, stock Dividend per share (share)		0	0.02	0
	Transfer to capital from capital reserve, stock dividend per share		0	0	0
Change in operation results	Operation income(NT$ thousand)		986,643	247,548	510,000
	Operation Income compared to previous year		204.32%	(74.91%)	106.02%
	Net income after tax (NT$ thousand)		778,945	162,733	397,000
	Net Income compared to previous year		236.85%	(79.11%)	143.96%
	Earnings per share (NT$)	Before Retroaction	1.74	0.36	0.87
		After Retroaction	1.70	0.36	0.87
	Earnings per share compared to previous year	Before Retroaction	237.01%	(79.31%)	141.67%
		After Retroaction	237.10%	(78.82%)	141.67%
	Average Return on investment	Before Retroaction	12.61%	2.19%	—
		After Retroaction	12.32%	2.19%	—
Conditional Earnings per share price-earning Ratio	If Capitalization of retain earnings were distributed as cash dividend.	Conditional Earnings Per share (NT$)	Not applicable	0.35	Not applicable
		Conditional Average annual rate of return on investment		2.16%	
	If capitalization of capital reserve were implemented.	Conditional Earnings per share (NT$)	Not applicable	Not applicable	Not applicable
		Conditional Average annual rate of return on investment			
	If capitalization of capital reserve were implemented, and capitalization of retained earnings were distributed as cash dividends.	Conditional Earnings per share (NT$)	Not applicable	Not applicable	Not applicable

Note：1. If the capital is transferred from earnings, total amount is distributed to cash dividend instead, estimated earnings per share=(net income after tax – estimated interest expenses of cash dividend x (1-tax rate)/(shareholders' equity as of ended year – stock dividend from earnings).
Estimated interest expenses' of cash dividend = capitals transferred from earnings x annual general interest rate of loans. Stock dividend from earnings: Additional share due to stock dividend from previous year earnings.

2. Average price to earning ratio = Annual average market price per share/EPS of annual financial statement.

(3) Distribution Status of Dividend Proposed by FY2003 Shareholders Meeting:

A. For Jan. 1, 2002 to Dec. 31, 2002, final financial statement have been audited and certificated by Ping-Chang Su, Ren-Yau Shine, CPA of Horwath Chien Hsing Union. Net income after tax was NT$162,732,714. No non-distribution earnings in the beginning.

B. Proposed appropriation of earnings is according to articles 31, regulations of BOK. Contents as follows: Earnings on final financial statement of BOK shall first offset against accumulated deficit, secondly complete payment of taxes, then appropriate 30% from earnings as legal reserve. BOK is also authorized to appropriate special reserve according to regulations and business needs. If any more earnings, distribution is based on the following percentage: Directors and supervisors' remuneration 2%, employees's bonus 8%, shareholders' dividend 90%.

C. Shareholders' dividend for 2002 is estimated to distribute cash dividend NT$0.5 per share. Directors' and supervisors' remuneration and employee's bonus are distributed only with cash .

D. Shareholders' dividend, directors and supervisors' remuneration and employee's bonus for 2002 proposed to distribute by means of FY2002 earnings and pro FY1999 (Jul. 1998 to Jun. 1999) appropriated special reserve for the resource of distribution. BOK is holding special reserve NT$331,997,772, estimated transfer to accumulated earnings NT$140,341,545. Therefore, special reserve balance at end of the year is NT$191,656,227.

E. Earning for 2002 was NT$162,732,714. , Plus special reserve transferred to accumulated earnings was NT$140,341,545. , Totaled NT$303,074,259. Proposed to appropriate as follows:

a. Appropriated legal reserve: NT$48,819,814.

b. Shareholders' dividend: NT$228,829,002
(Cash dividend per share NT$0.5)

c. Directors and supervisors' remuneration: NT$5,085,088

d. Employees' bonus: NT$20,340,355

F. FY2002 proposal for appropriation of earnings will be carried into effect after approval from shareholders meeting. Appropriation date of cash dividend will be set up by the board of directors.

3. INTERNAL CONTROL STATEMENT

Internal control Statement of Public Listed Company
This statement about compliance with related laws and regulations is applicable to all of them.
(Both design and execution are effective)

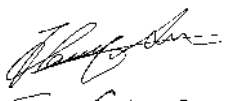
Bank of Kaohsiung
Internal Control Statement

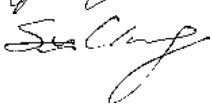
Jan. 23, 2003

We hereby declared that the implementation of internal control system from Jan. 1, 2002 to Dec. 31, 2002 was based on the results of our evaluation.

A. We are fully aware that it's the responsibility of board of directors and management to establish, implement and maintain internal control system and we have already set up this system. It is desired to achieve the targets on results and efficiency of operations (including profitability, performance and safeguarding assets), reliability of financial statements as well as observance of relevant laws and regulations and reasonably ensure the compliance.
B. Since internal control system has its limitation, the effective internal control system only reasonably ensures the above-mentioned objectives regardless of its perfect design. However the effectiveness of internal control system may vary because of changes in operating environment and circumstances. Yet our internal control system is equipped with self-monitoring merchanism, we will take correction actions as soon as any errors are discovered.
C. The evaluated items for effectiveness of internal control system in "Implementation Measures for Internal Control System of Public Listed Company" (referred to Implementation Measures herewith), promulgated by Securities and Futures Commission, Ministry of Finance, are applied to evaluate whether design and execution of internal control system are effective. The evaluated items adopted in the Implementation Measures are the process of management control. The internal control is divided into 1. Control environment 2.Risk evaluation 3. Control operations 4. Information and communication and 5. Monitoring. Besides the above elements include certain items. Please refer to "Implementation Measures".
D. We have adopted the above-evaluated items of internal control system to evaluate the effectiveness of design and execution of internal control system.
E. Based on the results of this evaluation, we believe the internal control system including making a supervision on the subsidiaries utilized during the said period is effective and can ensure the accomplishment of the objectives of effective and efficient business operation, reliable financial reporting and compliance with related laws and regulations.
F. This statement will become the main contents of our annual report and open statements and will be publicly released. If contents of open statements have any fraud and concealment, we are legally liable concerning Article No. 20, 32, 171 and 174 of Securities and Exchange Law.
G. Regular meeting of board of directors on Jan. 23, 2003 has approved this statement. None of 11 attending directors held objection, they all expressed their approval on the contents of statement and herewith stated.

Bank of Kaohsiung

Chairman: 

President: 

Internal control Statement of Stock Broker
This statement about compliance with related laws and regulations is applicable to all of them.
(Both design and execution are effective)

Bank of Kaohsiung
Internal Control Statement

Mar. 27, 2003

We hereby declared that the implementation of internal control system from Jan. 1, 2002 to Dec. 31, 2002 was based on the results of our evaluation.

A. We are fully aware that it's the responsibility of board of directors and management to establish, implement and maintain internal control system and we have already set up this system. It is desired to achieve the targets on results and efficiency of operations (including profitability, performance and safeguarding assets), reliability of financial statements as well as observance of relevant laws and regulations and reasonably ensure the compliance.

B. Since internal control system has its limitation, the effective internal control system only reasonably ensures the above-mentioned objectives regardless of its perfect design. However the effectiveness of internal control systems may vary become of changes in operating any time due to environment and circumstances. Yet our internal control system is equipped with self-monitoring mechanism, we will take correction actions as soon as any errors are discovered.

C. The evaluated items for effectiveness of internal control system in "Implementation Measures for Internal Control System of all service business of securities and future markets "(referred to Implementation Measures herewith), promulgated by Securities and Futures Commission, Ministry of Finance, are applied to evaluate whether design and execution of internal control system are effective. The evaluated items adopted in the Implementation Measures are the process of management control. The internal control is divided into 1. Control environment 2.Risk evaluation 3. Control operations 4. Information and communication and 5. Monitoring. Besides the above elements include certain items. Please refer to the "Implementation Measures".

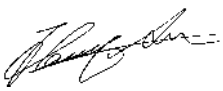
D. We have adopted the above-evaluated items of internal control system to evaluate the effectiveness of design and execution of internal control system.

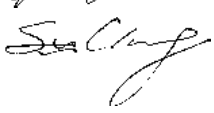
E. Based on the results of this evaluation, we believe the internal control system including making a supervision on the subsidiaries utilized during the said period is effective and can ensure the accomplishment of the objectives of effective and efficient business operation, reliable financial reporting and compliance with related laws and regulations.

F. This statement will become the main contents of our annual report and open statements and will be publicly released. If contents of open statements have any fraud and concealment, we are legally liable concerning Article No. 20, 32, 171 and 174 of Securities and Exchange Law.

G. Regular meeting of board of directors on Mar. 27, 2003 has approved this statement. None of eleven attending directors held objection, they all expressed their approval on the contents of statement and herewith stated.

Bank of Kaohsiung

Chairman: 

President: 

4. Penalty for illeguality as well as Major Flaws and Rectifications.

(1) Company manager or employees were indicted crime by the procurators in recent 2 years.

A. Case brief and main flaws:

a. Case brief:

On Apr. 27, 2001 a public prosecution was initiated against 4 persons of the Shi Wei Branch (nowadays moved and renamed as "Da Fa Branch"), including the former manager, deputy manager and two staff members by the Prosecutors' Office of Kaohsiung District Court on a charge of overestimate guaranty, amounts to NT$9 million, to Wan Li Shian Restaurant. Whereafter resulted in the case of delinquent loan. Thus far , this case is still pending at the Kaohsiung District Court.

B. Situation of improvement:

a. Adjustment is made to the credit policy of this Bank and to reduce the manager's authority in credit. That is to say, to shift the weight of credit to the lower-risk consumer loan business for government officers and teachers. In addition, the other above credit cases under manager's authority will be taken into consideration scrupulously by the Head Office of this Bank, thereby reducing risk on credit and avoiding damages caused by human corruption.

b. Establishment of an "Appraisal Center for Collaterals" (Apr. 20, 2000) and revising the "Guidelines for Real Property Appraisal and Loan Evaluation" so as to set up a legitimate and objective appraisal basis and to control the risk of credit on real property.

c. The Shi Wei Branch of this Bank has been moved to a new address on Dec. 26, 2000, with its name changed to "Da Fa Branch." For the present case, the Investigation Office has undertaken an examination on the "Real Property Appraisal Operation" of the Da Fa Branch and the result revealed that those flaws have indeed been improved. A further check with all the branches shows that there has never been such matter happened.

(2) Fine imposed due to violations of Bank Law in recent 2 years: None.

(3) Whether orders for corrections have been given by the Ministry of Finance: None

(4) For individual or aggregated annual actual losses exceeding $50,000,000 in recent 2 years. Due to employee fraudulence, major accidental incidents (major incidents such as robbery, major the thefts, fire, or violence), or security accidents caused by non compliance of the Guideline to Security Maintance by Financial Institutions,the nature and amount of the losses should be disclosed: None.

(5) Other items for disclosure as designated by the Ministry of Finance : None

5. Important Decisions

(1) Important decisions adopted in regular meetings of shareholders within these two years:

A. It was resolved in the regular meeting of shareholders in 2001 that the total payroll to the directors and the supervisors per mouth is limited to NT$2,400,000. Whereas, in view of the fact that the duties of the directors and the supervisors may vary, the amount of payment to each of them shall be determined by the Board of Directors.

B. To strengthen capital structure, integrate financial foundation, and upgrade business competitive ability During FY2002, our Bank appropriated NT$89,736,860 from special reserve for capital, and issued 8,973,686 shares.

C. To cooperate with the adjustment of the company Law on Nov. 12, 2001, and reply to business effective demand, we amended our Bank's articles.

D. Amended some rules of "Bank of Kaohsiung Co., Ltd Regular Meetings of Shareholders By-Laws.

E. Amended some rules of "Bank of Kaohsiung Co., Ltd Directors and Supervisors' Election Methods".

F. To accelerate Labor-Management accordance, aggregate the development, therefore contract group convention with the Group Convention Rules.

(2) Important decisions in the special meeting of shareholders within these two years: None.