Stock Code:2807

STANDARD CHARTERED BANK (TAIWAN) LIMITED

FINANCIAL STATEMENTS

December 31, 2017 and 2016
(With Independent Auditor's Report Thereon)

安侯建業聯合會計師事務所
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Independent Auditors' Report

To the Board of Directors of Standard Chartered Bank (Taiwan) Limited:

Opinion

We have audited the financial statements of Standard Chartered Bank (Taiwan) Limited ("the Bank"), which comprise the statement of financial position as of December 31, 2017 and 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of the Bank as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years ended December 31, 2017 and 2016, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), International Financial Reporting Interpretations Committee ("IFRICs"), and the Standing Interpretations Committee ("SICs") endorsed by the FSC (hereinafter referred to as "the IFRSs endorsed by the FSC").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of loans and advances

1) Risk and descriptions of the key audit matter:

Loans and advances refer to financial assets measured at amortized cost where quoted market prices are not available. The risk is that the estimation of the provision may be misstated due to the application of estimation which often involve the exercise of judgment, the use of assumptions, and the estimated recoverability. Wholesale banking clients are evaluated and monitored individually, based on the knowledge of financial and non-financial information of each individual. However, the consumer banking clients comprise much smaller value loans to a much greater number of customers. Accordingly, loans are grouped and monitored by product into homogeneous exposures, which also drive the assessment of loan loss provisions.

Despite the overall growth in export trades, industry competition continues having influence on revenue and profitability of wholesale banking clients, which adds uncertainty to the recoverability on loans and advances; residential mortgage is one of the major components of loans. Due to the declining in property trading volume and the decreasing in pricing, causing the values of the collaterals to drop which adds probability of insufficient guarantee. This matter requires significant attention of our audit for the financial statement.

Please refer to notes 6 (6), (7) and (10) for further description of impairment loss of loans and advances.

2) Procedures performed:

- Testing the key control over the credit grading and monitoring processes, to assess if the risk grades allocated to the counterparties which follows the Bank' s policy and loans were identified, on a timely basis, into early alert or higher credit grades.
- Performing credit assessments by sampling of all loans with a significant carrying value and high-risk loans that are on the Early Alert Report. For these selected loans, we assessed the reasonableness of the forecast of recoverable cash flows, realization of collateral and other possible sources of repayment.
- For portfolio impairment provision ("PIP"), our procedures included:
  - Assessing the appropriateness of the models used for calculating the PIP.
  - Testing the appropriateness of the inputs into the model.
- Assessing whether the loan loss provision is in line with the minimum requirement of the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.

2. Valuation of financial instruments

1) Risk and descriptions of the key audit matter:

The risk is that the valuation of financial instruments may be misstated due to the application of valuation techniques which often involve the exercise of judgment and the use of assumptions and estimates. Of the financial instruments that are held at fair value through profit and loss or as available-for-sale in the Bank's balance sheet, majority were qualified as being measured using level 1 or 2 inputs in the fair value hierarchy as of December 31, 2017. This means they were valued using prices that were observable in the market place or through models with market observable inputs, including those inputs that can be observed directly (quoted prices) or indirectly (derived from quoted prices) from active markets, resulting in the valuation risk being low. The measurement of the fair value of the input parameters of Level 3 are not based on observable market data, therefore, during the valuation process, those related to the modeling assumptions used by the Bank in measuring expected exposures of derivatives and the appropriateness of the proxies used (for estimating loss rates) for counterparties may cause differences in calculation.

Please refer to Note 6 (37) for further description of valuation of financial instruments.

2) Procedures performed:

Testing of the controls over the identification, measurement and management of valuation risk including independent price verification control, the governance over valuation models, model validation and the management reporting of valuation risk.

- Testing, for a selection of pricing inputs used, that they were externally sourced and were correctly input into pricing models.
- Understanding the Bank's valuation model and valuation methodology for financial instrument.

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- Valuing a selection of debt securities and derivative positions independently, using appointed internal valuation specialists, and comparing their valuation to the Bank's valuation.

- We also performed a range of additional procedures on the credit and funding valuations adjustments which included:

  — Appointed our valuation specialists to assess the appropriateness of the methodology and to assess the key underlying models used.

  — Checked the selections of counterparty exposures to assess whether these were appropriately netted in arriving at the final exposures.

  — Assessed the appropriateness of the Bank's credit risk valuation adjustment.

3. Realization of deferred tax assets

1) Risk and descriptions of the key audit matter:

The Bank's deferred tax assets recognized included the carryforward of unused tax losses and deductible temporary differences. The audit risk lies in the recognition and realization of the deferred tax assets, requires management's subjective judgment and estimate, to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized.

Please refer to notes 6(22) and 11 for further description of the recognition of deferred tax assets.

2) Procedures performed:

Assessing the reasonableness of the deferred tax assets, specifically on the amount recognized, the related procedure performed as below:

- Comparing the relating assumption on the prediction of future operation with the Bank's financial forecast, and taking into account the quality of profit forecast and book-tax difference of prior years.

- Evaluating the assumption of growth rate made by the Bank, based on our understanding and relating information of banking industry.

- Assessing whether the financial statement disclosures of the deferred tax assets are appropriate.

4. Goodwill impairment

1) Risk and descriptions of the key audit matter:

The Bank's goodwill, $3,156,048 thousand, as stated on the balance sheet, were arose through the acquisition of Asia Trust Investment Company Limited ("ATIC") in 2008. The main audit risk lies in the assessment of impairment of goodwill which requires the management to make subjective judgments to estimate the recoverable amount of relevant cash-generating units, which may not fully represent the recoverability of the goodwill.

Please refer to note 6(12) for further description of the impairment of goodwill.

2) Procedures performed:

- Assessing the consistency of key assumptions used by management in impairment test; and assessing the appropriateness of valuation methodology used by management for measuring recoverable amount.

- Taking into account the quality of profit forecast, comparing the inputs used in impairment test with external sources, and performing sensitivity test.

5. Disclosures on related party transactions

1) Risk and descriptions of the key audit matter:

The Bank is one of the subsidiaries under Standard Chartered PLC ("The SC PLC Group"). The Bank provided administrative support service and has service agreements with multiple individuals under the Group, with significant amount. Main services include interbank fund transferring, trading of derivatives, service income and cost, etc. The risk lies in any related party transactions that could not be disclosed or recognized.

Please refer to note 7 for further description of disclosures on related party transactions

2) Procedures performed:

- Understanding of the Bank's related party recognition process.
- Cross checking the balance of related party transactions with the Bank's financial statements to ensure whether they matched with the balance on counterparty's financial statements. Otherwise, the balance is being reconciled.
- Reviewing the details of related party transaction provided by the Bank; and assessing whether details of the transaction containing significant balances are disclosed completely in the financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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, Regulations Governing the Preparation of Financial Reports by Securities Firms, and the IFRSs endorsed by the FSC, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the audit committee) are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Generally Accepted Auditing Standards in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partners on the audit resulting in this independent auditors' report are Yung-Sheng Wang and Yuan-Sheng Yin.

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Taipei, Taiwan (Republic of China)
March 16, 2018

Notes to Readers

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

Standard Chartered Bank (Taiwan) Limited

Balance Sheets

December 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

Code	Assets	December 31, 2017 Amount	%	December 31, 2016 Amount	%
11000	Cash and cash equivalents (notes 6(1) and 7)	$ 26,535,866	4	14,168,772	2
11500	Due from the Central Bank and call loans to banks (notes 6(2) and 7)	115,118,255	18	102,109,199	17
12000	Financial assets at fair value through profit or loss (notes 6(3) and 7)	15,915,189	2	26,530,679	4
12300	Derivative financial assets for hedging—net (notes 6(4) and 7)	9,784	-	140,667	-
12500	Securities purchased under resell agreements and debt instruments (notes 6(5) and 7)	3,356,185	1	3,196,000	1
13000	Receivables—net (notes 6(6), (10) and 7)	20,975,429	3	18,603,886	3
13200	Current tax assets (note 6(22))	289,519	-	284,209	-
13500	Discounts and loans—net (notes 6(4), (7), (10) and 7)	262,812,237	41	267,281,457	43
14000	Available-for-sale financial assets—net (notes 6(4), (8) and 7)	185,135,013	29	157,879,248	26
15500	Other financial assets—net (notes 6(9), (10), 8 and 13(2))	7,587,452	1	14,411,707	2
18500	Property and equipment—net (notes 6(11) and 13(1))	4,422,756	1	4,687,179	1
19000	Intangible assets—net (note 6(12))	3,156,048	-	3,156,048	1
19300	Deferred tax assets (note 6(22))	1,489,054	-	1,767,016	-
19500	Other assets—net (notes 6(13), 7 and 8)	1,113,604	-	1,307,968	-
	Total assets	$ 647,916,391	100	615,524,035	100

Code	Liabilities and equity	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Liabilities:				
21000	Deposits from the Central Bank and banks (notes 6(14) and 7)	$ 59,092,527	9	31,412,055	5
22000	Financial liabilities at fair value through profit or loss (notes 6(3) and 7)	7,384,904	1	14,882,839	2
22300	Derivative financial liabilities for hedging—net (notes 6(4) and 7)	43,768	-	40,185	-
23000	Payables (note 6(15))	3,676,343	1	3,673,461	1
23100	Related parties payable (note 7)	8,353,294	1	10,207,386	2
23200	Current tax liabilities (note 6(22))	20,583	-	17,998	-
23500	Deposits and remittances (notes 6(4), (16) and 7)	505,410,260	79	492,606,933	80
24000	Financial debentures—net (notes 6(4), (17) and 7)	14,530,780	2	16,037,802	3
25500	Other financial liabilities (note 6(18))	1,264,386	-	1,033,273	-
25600	Provisions (notes 6(10), (19) and (21))	1,587,395	-	1,482,568	-
29300	Deferred tax liabilities (note 6(22))	682,519	-	645,744	-
29500	Other liabilities (note 6(20))	2,032,233	-	1,754,631	-
	Total liabilities	604,078,992	93	573,794,875	93
	Equity:				
31101	Common stock (note 6(24))	29,105,720	5	29,105,720	5
31500	Capital surplus (note 6(24))	5,794,771	1	5,794,771	1
	Retained earnings:				
32001	Legal reserve (note 6(24))	6,431,895	1	6,381,790	1
32003	Special reserve (note 6(24))	343,057	-	342,222	-
32005	Unappropriated earnings (note 6(24))	2,108,311	-	266,400	-
		8,883,263	1	6,990,412	1
32500	Other equity interest (note 6(24))	53,645	-	(161,743)	-
	Total equity	43,837,399	7	41,729,160	7
	Total liabilities and equity	$ 647,916,391	100	615,524,035	100

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited
Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016
(expressed in thousands of New Taiwan Dollars)

		2017		2016		Change
		Amount	%	Amount	%	%
41000	Interest income (notes 6(27) and 7)	$ 9,605,338	72	9,725,689	80	(1)
51000	Less：Interest expense (notes 6(27) and 7)	4,275,089	32	3,567,771	29	20
	Net interest income	5,330,249	40	6,157,918	51	(13)
	Net non-interest income					
49100	Net service fee income (notes 6(28) and 7)	4,457,844	33	4,011,253	33	11
49200	Gain on financial assets or liabilities at fair value through profit or loss (notes 6(29) and 7)	1,460,296	11	2,304,690	19	(37)
49300	Realized gain on available-for-sale financial assets (note 6(30))	9,061	-	59,642	-	(85)
49600	Foreign exchange gain (loss)	2,042,932	15	(318,235)	(3)	742
49800	Net other non-interest income (notes 6(4), (9), (31) and 7)	168,261	1	14,412	-	1,068
49700	Impairment losses on assets (notes 6(11) and (32))	(6,396)	-	(486)	-	(1,216)
	Net revenue	13,462,247	100	12,229,194	100	10
58200	Bad debt expense and guarantee liability provision (notes 6(10) and (33))	768,347	6	1,469,813	12	(48)
	Operating expenses:					
58500	Employee benefits expenses (notes 6(21), (25), (34) and 7)	5,087,087	38	5,049,033	41	1
59000	Depreciation and amortization expenses (notes 6(11) and (35))	153,182	1	200,986	2	(24)
59500	Other general and administrative expenses (notes 6(36) and 7)	4,862,939	36	4,731,976	39	3
	Total operating expenses	10,103,208	75	9,981,995	82	1
	Income before tax	2,590,692	19	777,386	6	233
61003	Less: income tax expense (note 6(22))	395,552	3	610,368	5	(35)
	Net income	2,195,140	16	167,018	1	1,214
65000	Other comprehensive income:					
65200	Items that may not to be reclassified subsequently to profit or loss:					
65201	Remeasurements of defined benefit plan (note 6(21))	(104,614)	(1)	113,130	1	(192)
65220	Income tax benefit related to items that may not to be reclassified subsequently to profit or loss (note 6(22))	17,785	-	(19,232)	-	192
	Total items that may not to be reclassified subsequently to profit or loss	(86,829)	(1)	93,898	1	(192)
65300	Items that may be reclassified subsequently to profit or loss:					
65302	Change in fair value of available-for-sale financial assets recognized	165,753	1	(812,360)	(7)	120
65303	Change in fair value of cash flow hedges recognized(note 6(24))	35,494	-	(38,425)	-	192
65320	Income tax benefit related to items that may be reclassified subsequently to profit or loss (note 6(22))	14,141	-	73,451	1	(81)
	Total items that may be reclassified subsequently to profit or loss	215,388	1	(777,334)	(6)	128
65000	Other comprehensive income, net of tax	128,559	-	(683,436)	(5)	119
	Total comprehensive income	$ 2,323,699	16	(516,418)	(4)	550
67500	Basic earnings per share (NTD) (note 6(26))	$ 0.75		0.06		

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

	Share capital		Retained earnings			Other item in stockholders' equity		
	Ordinary share	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total equity
Balance as January 1, 2016	$ 29,105,720	5,794,771	5,950,095	347,706	1,465,876	624,125	(8,534)	43,279,759
Appropriation and distribution of retained earnings:								
Legal reserve (note 6(24))	-	-	431,695	-	(431,695)	-	-	-
Special reserve (note 6(24))	-	-	-	(5,484)	5,484	-	-	-
Cash dividends of ordinary share (note 6(24))	-	-	-	-	(1,034,181)	-	-	(1,034,181)
Net income	-	-	-	-	167,018	-	-	167,018
Other comprehensive income	-	-	-	-	93,898	(745,441)	(31,893)	(683,436)
Total comprehensive income	-	-	-	-	260,916	(745,441)	(31,893)	(516,418)
Balance as December 31, 2016	29,105,720	5,794,771	6,381,790	342,222	266,400	(121,316)	(40,427)	41,729,160
Appropriation and distribution of retained earnings:								
Legal reserve (note 6(24))	-	-	50,105	-	(50,105)	-	-	-
Special reserve (note 6(24))	-	-	-	835	(835)	-	-	-
Cash dividends of ordinary share (note 6(24))	-	-	-	-	(215,460)	-	-	(215,460)
Net income	-	-	-	-	2,195,140	-	-	2,195,140
Other comprehensive income	-	-	-	-	(86,829)	185,928	29,460	128,559
Total comprehensive income	-	-	-	-	2,108,311	185,928	29,460	2,323,699
Balance as December 31, 2017	$ 29,105,720	5,794,771	6,431,895	343,057	2,108,311	64,612	(10,967)	43,837,399

Note: For the years ended December 31, 2017 and 2016, the amounts of employee remuneration were $259 thousand and $78 thousand, respectively, deducted from the statements of comprehensive income from each of the periods.

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(expressed in thousands of New Taiwan Dollars)

		2017	2016
Cash flow used in operating activities:			
Profit before tax	$	2,590,692	777,386
Adjustments:			
Adjustments to reconcile profit (loss)			
Depreciation expense		153,182	200,986
Bad debt expense and guarantee liability provision		768,347	1,469,813
Interest expense		4,275,089	3,567,771
Interest income		(9,605,338)	(9,725,689)
Net change in other provisions		(1,738)	(196,173)
(Gain) loss on disposal of property and equipment		(130,460)	33,747
Impairment loss on assets		6,396	486
Total adjustments to reconcile loss		(4,534,522)	(4,649,059)
Changes in operating assets and liabilities:			
Changes in operating assets:			
Due from the Central Bank and call loans to banks		(5,639,492)	20,408,145
Financial assets at fair value through profit or loss		10,615,490	2,483,455
Receivables		(1,848,294)	2,830,505
Discounts and loans		3,570,463	35,021,992
Available-for-sale financial assets		(27,088,982)	24,092,790
Other financial assets		6,794,261	(4,235,780)
Total changes in operating assets		(13,596,554)	80,601,107
Changes in operating liabilities:			
Deposits from the Central Bank and banks		27,680,472	3,432,319
Financial liabilities at fair value through profit or loss		(7,497,935)	(2,176,129)
Payables		(1,869,891)	(6,928,700)
Deposits and remittances		12,803,327	(4,982,068)
Other financial liabilities		231,113	(125,219)
Other liabilities		277,602	(1,650,914)
Total changes in operating liabilities		31,624,688	(12,430,711)
Total changes in operating assets and liabilities		18,028,134	68,170,396
Total adjustments		13,493,612	63,521,337
Cash inflow generated from operations		16,084,304	64,298,723
Interest received		9,244,444	9,975,149
Interest paid		(4,256,408)	(3,574,787)
Income taxes paid		(51,614)	(237,716)
Net cash flows from operating activities		21,020,726	70,461,369
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		383,436	102,846
Acquisition of property and equipment		(148,131)	(99,656)
(Increase) decrease in derivatives collateral		(175,203)	8,852,213
Decrease (increase) in other assets		369,567	(217,477)
Net cash flows from investing activities		429,669	8,637,926
Cash flows used in financing activities:			
Increase (Decrease) in derivative financial instruments for hedging		149,037	(119,859)
Decrease in financial debentures		(1,000,000)	(37,141,151)
Cash dividends paid		(215,460)	(1,034,181)
Net cash flows used in financing activities		(1,066,423)	(38,295,191)
Change in foreign exchange rate		(487,129)	(132,122)
Net increase in cash and cash equivalents		19,896,843	40,671,982
Cash and cash equivalents at beginning of period		96,328,538	55,656,556
Cash and cash equivalents at end of period	$	116,225,381	96,328,538
Components of cash and cash equivalents:			
Cash and cash equivalents reported in the balance sheets	$	26,535,866	14,168,772
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		86,333,330	78,963,766
Securities purchased under resell agreements and debt instruments qualifying for cash and cash equivalents under the definition of IAS 7		3,356,185	3,196,000
Cash and cash equivalents at end of period	$	116,225,381	96,328,538

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited
Notes to the Financial Statements
December 31, 2017 and 2016
(expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Organization

Standard Chartered Bank (Taiwan) Limited (the "Bank") was established on September 15, 1948, in the Taoyuan, Hsinchu, and Miaoli areas. The original name of the Bank was Hsinchu District's Mutual Loan Inc., which specialized in the mutual loan business, deposits, loans, and payment collection. In compliance with the Banking Act of the Republic of China ("ROC"), the Bank restructured to become The Small and Medium Business Bank of Hsinchu District on January 1, 1978, and in addition to the original lines of business, the Bank started to conduct checking deposit and regular banking businesses.

Pursuant to an approval granted by the Securities and Futures Commission ("SFC"), which subsequently changed its name to the Securities and Futures Bureau ("SFB") on July 1, 2004, the Bank's shares were authorized to be publicly issued beginning March, 1982 and publicly traded beginning March 22, 1983. Additionally, pursuant to approval granted by the Ministry of Finance ("MOF"), the Bank established a Trust Department in January 1989, pursuant to approval granted by the SFC, the Bank established the securities trading business in October 1989 and established the securities broker business in July 1992. In March 1993, pursuant to approval granted by the MOF, the Bank established the International Business Department to operate the foreign exchange business, which was formally operated on August at the same year. In September 1994, pursuant to approval granted by the Taiwan provincial government MOF, the Bank started to operate the business crossing the area. On January 16, 1995, the Bank established an Offshore Banking Unit ("OBU"), which began operations immediately.

The Bank was approved by the MOF to operate as a commercial bank in September 1998 and changed its name to Hsinchu International Bank Co., Ltd. on April 20, 1999.

During 2006, Standard Chartered Bank provided a tender offer to acquire the outstanding shares of Hsinchu International Bank Co., Ltd. Accordingly, Standard Chartered Bank acquired over 95% of the outstanding. After completion of the acquisition of shares, Hsinchu International Bank Co., Ltd. immediately submitted the delisting application, which was approved by the related authorities on January 18, 2007. On June 30, 2007, the operations of Standard Chartered Bank, Taipei Branch were transferred to Hsinchu International Bank Co., Ltd.; subsequently, Hsinchu International Bank Co., Ltd. was renamed Standard Chartered Bank (Taiwan) Limited on July 2, 2007. As of December 31, 2017, the Bank comprises 71 branches, a business department, a trust department, and an offshore banking unit.

The Bank acquired the outstanding assets, liabilities and operations of American Express Bank, Taipei Branch ("AEB") and Asia Trust Investment Co., Ltd. ("ATIC") on August 1 and December 27, 2008, respectively.

On October 9, 2014, the Bank terminated trading of securities in the stock exchange market, trading of securities at the business establishment, margin purchase and short sale of securities, trading of futures and dissolved the securities branch.

On May 6, 2015, the Bank was approved to start engaging in underwriting of bonds and marketable securities (limited to fixed income securities).

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Approved by the board of directors in June 2016 and by the Insurance Bureau in July 2016, Standard Chartered Life Insurance Agency Co. Ltd. ("SCLIA") and Taiwan Standard Chartered Insurance Agency Co. Ltd. ("TSCIA"), which are 100 percent owned subsidiaries, will be merged into the Bank through absorption on October 1, 2016. The Bank's stockholders' equity are not affected by the merger. After the merger, the assets, liabilities, rights and obligations of these two subsidiaries, as of the date of merger, were generally assumed by the Bank. Since the Bank no longer has other subsidiaries, therefore, the Bank only issues individual financial statements. When preparing the comparative financial statements in accordance with IFRS Q&A and interpretations published by Accounting Research And Development Foundation, the Bank are required to retroactively restate the prior period financial statements in consolidated basis. However, since the nature of the merger is a reorganization, the structure of the Bank's individual financial statement after the merger is the same as the structure of the consolidated financial statement prior to the merger. Therefore, the prior period financial statements retroactively restated is identical to the consolidated financial statements of prior period.

The Bank was approved by the Financial Supervisory Commissions R.O.C. ("FSC") to dissolve the International Business Department on October 21, 2016.

(2) Approval date and Procedures of the Financial Statements

The financial statements were authorized for issuance by the Board of Directors on March 16, 2018.

(3) New Issuance, Amendments and Revises of Standards and Interpretations Applicable:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 " Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014

(Continued)

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Bank assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017 :

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Bank believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The potential extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Bank does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis. The Bank estimated the application of IFRS 9' s classification requirements on January 1, 2018 resulting in a decrease of 63,621 thousand in the other equity interest, as well as the increase of 202,942 thousand in retained earnings, respectively.

2) Impairment-Financial assets and contact assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

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The Bank believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Bank estimated the application of IFRS 9's impairment requirements on January 1, 2018 resulting in the increase of 4,978 thousand in the other equity interest, as well as the decrease of 124,354 thousand in retained earnings, respectively.

3) Hedge accounting

When initially applying IFRS 9, the Bank can choose to adopt the hedge accounting requirements of IAS39 instead of the requirements in IFRS 9 as its accounting policy. The Bank has chosen to continue the application of hedge accounting requirements of IAS 39 as its accounting policy.

4) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Bank's assessment included an analysis to identify data gaps against current processes and the Bank plans to implement the system and controls changes that it believes will be necessary to capture the required data.

5) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity interest as at January 1, 2018.
- The Bank choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(Continued)

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

Those which may be relevant to the Bank are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
May 18, 2016	IFRS 17 "Insurance Contracts "	The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows: • Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a group of insurance contracts it issues from the earliest. • Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk. • Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.

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Issuance / Release Dates	Standards or Interpretations	Content of amendment
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	• In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.
February 7, 2018	Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	The amendments clarify that: • on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the remainder of the reporting period after the change to the plan; and • the effect of the asset ceiling is disregarded when calculating past service cost and the gain or loss on settlement. Any change in that effect is recognised in other comprehensive income.

The Bank is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Bank completes its evaluation.

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(4) Summary of Significant Accounting Policies

Significant accounting policies adopted in the financial statements are summarized as below:

1) Statement of compliance

The financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), International Financial Reporting Interpretations Committee ("IFRICs"), and the Standing Interpretations Committee ("SICs") endorsed by the FSC (hereinafter referred to as "the IFRSs endorsed by the FSC").

2) Basis of preparation

The financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

(a) Financial instruments at fair value through profit or loss (including derivative financial instruments);

(b) Available-for-sale financial assets at fair value;

(c) Derivative financial instruments for hedging at fair value;

(d) Liabilities for cash-settled share-based payment arrangements at fair value; and

(e) The defined benefit asset is recognized as plan assets, plus unrecognized past service costs and unrecognized actuarial loss, less the unrecognized actuarial gain and the present value of the defined benefit obligation.

3) Foreign currency transactions

Except for accounts in the OBU of the Bank that are denominated in US Dollars, accounts in all entities are denominated in New Taiwan Dollars. For those transactions denominated in foreign currencies, assets and liabilities are recorded in their original foreign currencies, while all income and expense accounts are denominated in original foreign currencies and translated into New Taiwan Dollars at the daily closing exchange rates. At the report date, the financial statements amounts in all foreign currencies are translated into New Taiwan Dollars at ruling exchange rates assigned on that date. The Bank's financial statements are presented in New Taiwan Dollars, the functional currency of the Bank. All financial information presented in New Taiwan Dollars is expressed in thousands of New Taiwan Dollars, unless otherwise specified. Foreign exchange differences arising on the translation of a foreign currency transaction are recognized in current period profit or loss.

4) Cash and cash equivalents

Cash and cash equivalents include cash on hand, checks for clearing, and due from banks, but cash that is either restricted to be used only for specified purposes or by regulation or contracts is excluded. According to the statements of cash flow prepared under the definition of IAS 7, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and include due from the Central Bank and call loans to banks and securities purchased under resell agreements and debt instruments.

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5) Financial instruments

(a) Financial assets

Financial assets held by the Bank are recorded on the trading date. Except for financial instruments classified as held for trading, other financial instruments are initially recognized at acquiring or issuing cost plus transaction costs.

i. Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the Bank, except for those designated and effective hedging instruments, are classified under these accounts. At each report date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized in current profit or loss.

ii. Available-for-sale financial assets—net

At each report date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized directly in other comprehensive income. Interest on a debt instrument classified as available-for-sale is accrued; the relevant premium/discount is amortized by using the effective-interest-rate method. If there is objective evidence that an available-for-sale financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss of the available-for-sale equity securities decreases, the impairment loss recognized in profit or loss shall not be reversed through profit or loss. If, in a subsequent period, the amount of the impairment loss of the available-for-sale debt securities decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized. A gain or loss on available-for-sale financial assets is recognized directly in other comprehensive income, except for impairment losses and foreign exchange gains or losses arising from monetary financial asset, until the financial assets are derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is charged to profit or loss.

iii. Securities under repurchase/resell agreements and debt instruments

Securities sold/purchased with a commitment to repurchase/resell at predetermined price are treated as financing transactions. The difference between the cost and the repurchase/resell price is treated as interest expenses/revenue and recognized over the term of the agreement. On the selling/purchasing date, these agreements are recognized as securities sold under repurchase agreements or securities purchased under resell agreements.

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iv. Loans, receivables and allowance for bad debts

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Credit maturing less than one year is called short term credit; credit maturing more than one year but less than seven years is called medium term credit; and credit maturing more than seven years is called long term credit. Loans with collateral, pledged assets, qualified guarantees and other legally guaranteed objects to secure credit are secured loans.

Loans are recorded initially at principal and reported at their outstanding balances after netting with any provisions for doubtful accounts. In accordance with the Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans approved by FSC, an allowance for doubtful accounts is determined by evaluating the collectability of loans and days past due of receivables (including non-performing loans, overdue receivables, and interest receivable) and of advance accounts. Any non- performing loans or non-accrual loans, after subtracting the estimated recoverable portion, having one of the following characteristics shall be written off:

i) The loan cannot be recovered in full or in part because the debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons;

ii) The collateral and property of the primary/subordinate debtors have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the Bank might collect from the debtors where there is no financial benefit in execution;

iii) The primary/subordinate debtor's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the Bank's taking possession of such collateral;

iv) More than two years have elapsed since the maturity date of the non-performing loans or non-accrual loans, and the collection efforts have failed;

v) Other non-performing loans or non-accrual loans for which it has been ascertained that the efforts of collection have failed.

However, when requested by the competent authority or any financial examination agency (organization), loans must be immediately written off, a report must be made to the subsequent board meeting, and the supervisors must be notified for acknowledgement. Collections after write off shall be reversed from the allowance for bad debt expense.

Principal or interest overdue over three months is categorized as overdue accounts. If principal or interest of any outstanding loan is overdue for over six months, both the principal and accrued interest are reclassified as non-performing loan. Accrued interest on a non-performing loan will only be calculated and booked into memo accounts.

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The objective evidence should be identified first to reveal impairment existing for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, it should be further included in a set of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not required to be collectively assessed because impairment is or continued to be recognized.

If there is an objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; the amount of the loss should be recognized as bad debt expenses in profit or loss in the current period. When determining the amount of the loss, the estimation of future cash flows includes the recoverable amount of collateral and related insurance, which cannot be less than the one set by the Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non- accrual Loans approved by FSC.

v. Financial assets carried at cost

Equity instruments with no quoted market price are initially recognized at whose fair value plus transaction costs. At each report date, fair value can be reliably measured if either of the below conditions are met. The financial assets should be measured at fair value and reclassified as available-for-sale. If there is objective evidence of impairment, the impairment loss should be recognized. Such impairment losses are not allowed to be reversed:

i) The variability in the range of reasonable fair value estimates is not significant for that instrument or;

ii) The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, it is not permissible to measure the instrument at fair value; instead, the instrument shall be carried at cost.

Cash dividends received from the aforementioned financial assets are recorded under "Net other non-interest income" on the ex-dividend date or the date that the board declares a cash dividend. Nevertheless, dividends received will be deducted from the equity investment if they are declared out of profits prior to the acquisition of the investment. Stock dividends are not recognized as income but only treated as an increase in the number of shares held.

vi. Financial assets initially classified as measured at fair value through profit or loss (other than derivative financial assets and those designated as assets measured at fair value through profit or loss) may be reclassified into other categories if those financial assets are no longer held for the purpose of selling and meet the criteria listed below; financial assets initially classified as available-for-sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables. The accounting treatments on the date of reclassification are summarized as follows:

i) When financial assets initially classified as measured at fair value through profit or loss have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.

ii) Financial assets initially classified as measured at fair value through profit or loss which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.

iii) When financial assets initially classified as available-for-sale have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable.

iv) For any previous gain or loss on a financial asset that has been recognized directly under owners' equity, if the financial asset has a fixed maturity, the gain or loss shall be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains under owners' equity.

vii. Financial asset impairment

If there is an objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; the amount of the loss shall be recognized in profit or loss in the current period. The estimation of future cash flows includes the recoverable amount of collateral and related insurance when determining the amount of the loss.

The aforesaid objective evidence includes:

i) Significant financial difficulty of the issuer or obligor;

ii) A breach of contract, such as a default or delinquency in interest or principal payments;

iii) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;

v) The disappearance of an active market for that financial asset because of the issuer's financial difficulties;

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vi) Adverse changes in the payment status of the borrower; and

vii) Changes in national or local economic conditions that correlate with defaults on the assets.

viii. Derecognition of financial assets

The Bank shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or transfers substantially all the risks and rewards of ownership of the financial assets.

(b) Financial liabilities

The financial liabilities held by the Bank include a financial liability measured at fair value through profit or loss (including the instruments designated at fair value through profit or loss), financial liability at amortized cost and hedge derivatives.

i. Financial liabilities at fair value through profit or loss

A financial liability is held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, is classified as instrument held for trading as well. Financial liabilities held for trading include obligations to deliver financial assets borrowed by a short seller.

ii. Financial liabilities at amortized cost

Financial liabilities are classified at amortized cost of a financial liability, except for financial liabilities measured at fair value through profit or loss, hedged derivatives financial liability, financial guarantee contracts, commitments to provide a loan at a below-market interest rate and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

iii. Financial debentures

The issuance of a debt instrument is recorded at its fair value using a valuation technique. If the issuing price of such debt instrument is different from its face value, the difference is amortized as interest income or expense by the interest method over the period from the acquisition date to the maturity date.

The difference between the payment and carrying amount of a debt instrument at the early extinguishment date should be recognized as extraordinary losses or gains in the current period if it is material.

iv. Derecognition of a financial liability

The Bank shall remove a financial liability from its balance sheets when, and only when, it is extinguished.

(c) Derivatives and hedging accounting

Derivatives instruments is initially recognized at fair value on contract date and subsequently measured at fair value. Fair value includes quoted price in an active market, occurring market transaction prices or model valuation technique. All derivatives instruments are recognized as assets with positive fair value and as liability with negative fair value.

The Bank should account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the entire hybrid contract is not designated as at fair value through profit or loss. In addition, the embedded derivative is recognized as financial asset or liability as measured at fair value through profit or loss.

When a fair value hedge and cash flow hedge are in conformity with all the conditions for applying hedge accounting, the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items. The related accounting treatments are as follows:

i. Fair value hedge:

Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments against the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment are recognized through profit or loss in the current period.

ii. Cash flow hedge:

Where a derivative financial instrument is designated as a hedge of the volatility in cash flow of a recognized asset or liability or a highly foreseeable forecast transaction, the effective hedged portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognized directly under other comprehensive income. When the hedged transaction actually affects the profit or loss, the gain or loss previously recognized under other comprehensive income shall be recognized through current profit or loss. Any gain or loss from the change in fair value relating to an ineffective hedged portion of the hedge transaction is recognized immediately through profit or loss in the current period.

6) Non-financial asset impairment

In terms of International Accounting Standard No. 36, the Bank, at each report date, the recoverable amount of an asset is estimated and compared with the carrying amount whenever there is an indication that the non-financial asset may be impaired. An impairment loss is recognized when the recoverable amount is less than the carrying amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior-period estimation. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

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7) Lease classification

Lease contracts in accordance with the International Accounting Standards No. 17 and the FSC interpretation note No. 4 are divided into financial leases and operating leases.

The Bank classifies all its leases as operating leases.

The Bank's lease fees, which categorized under operating leases, are calculated using the straight-line method over the lease period where fees paid or received are recognized under income as "Other general and administrative expenses" and "Net other non-interest income".

8) Property and equipment

Property and equipment are measured at cost on acquisition. Subsequently, property and equipment are measured at cost plus any revaluation increments (land revaluation based on the announcement of the adjustment in current land value). Interest expense incurred directly attributable to bringing an asset to the condition necessary for it to be capable of operating should be capitalized. Major additions, improvements, and renewals are treated as capital expenditure and capitalized, while maintenance and repair costs are expensed when incurred.

The Bank evaluates the estimated remaining useful lives, depreciation method, and residual value on a yearly basis. Changes in the estimated remaining useful lives, depreciation method, and residual value are accounted for as changes in accounting estimates.

Except for land, depreciation of property and equipment is calculated using the straight-line method over its estimated useful life at cost. Gains or losses on the disposal of property and equipment are recognized as net other non-interest income. Useful lives of property and equipment held by the Bank are as follows:

Buildings	5 to 50 years
Office equipment	3 to 6 years
Leasehold improvement	Not exceed the shorter of 10 years or lease term
Other equipment	3 to 5 years

9) Intangible assets

(a) Computer software

Computer software system expenses, which are recorded on the basis of the actual cost of acquisition, are amortized using a straight-line method. Its amortization method, useful life and residual value are referred to the regulation of properties and equipment. The Bank use cost model to proceed subsequently measurement.

(b) Goodwill

Goodwill under the purchasing method is the portion in excess of the identifiable net assets measured using fair value. Goodwill is carried at cost less accumulated impairment.

Goodwill relating to cash-generating units is tested for impairment periodically each year. An impairment loss is recognized when the recoverable amount is less than the carrying amount. Impairment losses cannot be reversed once an impairment loss has been recognized.

(Continued)

10) Assets held-for-sale and liabilities directly related with assets held-for-sale

Disposal groups held for sale are classified as "Assets held-for-sale" when all of the following criteria are met: a decision has been made to sell, the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and it must be highly probable that the sale will be completed within one year. Disposal groups held for sale that is classified as "Assets held-for-sale" are measured at the lower of their book value or fair value less costs to sell. In addition, no amortization or depreciation expense shall be recognized. The net value of "Assets held-for-sale" is listed as an individual item in the balance sheet. Interest expense and other expenses incurred in a disposal group held for sale shall continue to be recognized in the current period profit or loss.

11) Provisions

The Bank recognizes provisions only if all of the following conditions are met:

(a) An entity has a present obligation, legal or constructive, as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

The Bank shall not recognize provisions for future operating losses.

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

The amount of a provision is measured subsequently as the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The deficiency is recognized as profit or loss of the current period.

12) Revenue and expense recognition

Interest income and expense on available-for-sale assets, financial assets or liabilities at amortized cost and financial assets and liabilities at fair value through profit or loss excluding derivatives is recognized in the current profit or loss using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized at the original effective interest rate of the financial asset applied to the impaired carrying amount.

Service fee and charge are generally recognized on an accrual basis when the service has been provided or significant act performed.

13) Employee benefit

(a) Short-term employee benefit (including employee bonus, remuneration of directors and supervisors): The Bank charges the short-term and non-discounted benefit to be paid in the near future to current expenses in the periods during which services are rendered by employees.

(Continued)

(b) Post-employment benefit: The Bank pension plan comprises defined contribution plan and defined benefit plan.

i. A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefits expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

ii. A defined benefit plan is a post-employment benefit plan under which benefit is paid to an employee on the basis of their ages, service periods and compensated salaries at the date of retirement. The Bank recognizes actuarial gains and losses which are incurred by the change of actual experience and actuarial assumption in other comprehensive income, and recognize pension asset or liability in balance sheets in which asset or liability is the amount of actuarial present value of defined benefit obligation deducting fair value of plan assets. The calculation of defined benefit obligation is performed annually by an actuary using the projected unit credit method. The actuarial present value of defined benefit obligation is calculated by discounting future cash flow at the yield rate on AA credit rated bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. Pension cost for the period is calculated on a year-to-date basis by using actuarially determined pension cost rate at the end of the previous fiscal year. In terms of the amendment of Article 12 of Regulations Governing the Preparation of Financial Reports by Public Banks according to Jin-Guan-Yin-(Fa)-Zi No. 10310006010 as announced by FSC on October 21, 2014, the Bank elected to recognize the remeasurements of defined benefit plans in retained earnings, and will not reclassify amounts into profit or loss in the subsequent period.

14) Share-based compensation

IFRS 2 "Share-based payment" requires that all share-based payments are accounted for using a fair value method and the fair value of the employee services received in exchange for the grant of the options is recognized as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognized over the period from the start of the performance period to the vesting date.

(Continued)

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each report date, the Bank revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each report date and a liability recognized on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

15) Income tax

Income tax expense include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profits or losses. Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years. Deferred taxes arise due to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled, based on statutory tax rate on the reporting date or the actual legislative tax rate.

A deferred tax asset should be recognized for the carryforward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

In accordance with the R.O.C. Income Tax Act, an additional income tax at the rate of 10 percent on undistributed earnings is recognized as current income tax expense in the year of the resolution in the shareholders' meeting to be exercised by its board of directors distributed earnings.

The Income Basic Tax Act was announced and became effective on January 1, 2006 and amended and became effective on January 1, 2013. The calculation of the Bank's basic income is the sum of the taxable income as defined in accordance with the Income Tax Act and the provisions or tax benefits that are included in the Income Tax Act and other laws. The amount of basic tax of the Bank is the amount of basic income as calculated in accordance with the preceding rules, and then multiplied by the tax rate prescribed by the Executive Yuan. The greater of income basic tax expense or income tax expense is the current tax expense actually liable by the Bank.

16) Earnings per share of common stock

Earnings per share ("EPS") are computed by dividing the amount of net income (or loss) attributable to common stock outstanding for the period by the weighted-average number of issued common shares outstanding during the period. If the number of common shares or potential common shares outstanding increases as a result of capitalization of retained earnings, additional paid-in capital, or employee bonuses, or decreases as a result of a reverse capitalization due to losses, the calculation of basic EPS and diluted EPS for all periods presented is adjusted retrospectively. If these changes occur after the report date but before the issuance date of the financial statements, such EPS calculations are also adjusted retrospectively. When calculating diluted EPS, the net income (or loss) attributable to common shareholders and the weighted-average number of shares outstanding shall be adjusted for the effects of all dilutive potential common shares.

(5) Primary Sources of Significant Accounting Judgments, Estimates and Assumptions Uncertainty

When preparing 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 Firms and the IFRSs endorsed by the FSC, the Bank is required to make judgments, estimates, and assumptions on valuation of below assets that may causes differences between actual results and estimates. Subsequently, it affects the adoption of accounting policies, reported amounts of assets, liabilities, revenues, and expenses.

The Bank keeps testing applicable assumptions and estimations. Adjustment will be done due to any impacts of changes in the uncertainty mentioned above; and changes will be recognized in the period when they applied.

Below shows the management judgments, estimates, and assumptions that contain risk, and may cause adjustments in the current and future accounting period due to uncertainty.

1) Impairment of loans and advances

When the Bank decides whether to recognize impairment loss, they mainly decide if there are any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or local economic situation related to debt payment in arrears. When analyzing expected cash flow, the estimates by the management are based on past losses experience on assets of similar credit risk characteristics. The Bank periodically reviews methods and assumptions behind the amounts and schedule of expected cash flow, to reduce the difference between expected and actual loss. Please refer to note 6(7) and (10) for impairment loss on loans.

(Continued)

2) Valuation of financial instruments

Fair value of financial instruments is determined using valuation techniques when there is no active market or quoted price. Under this circumstance, fair value is assessed through relevant observable information or model. If there is no observable market parameters, the fair value of financial instruments can be evaluated based on appropriate assumptions. When valuation technique is used to determine fair value, all models shall be calibrated to ensure that all outputs reflect the actual data and the market price. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs. The valuation techniques are adopted, as much as possible, from observable data. However, for credit risk (risk between itself and counterparty), the management shall estimate volatility and correlation.

3) Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires management' s subjective judgment and estimate, including the future revenue growth and profitability. Changes in the economic environment, industry trends, and relevant laws and regulations may result in adjustments to the deferred tax assets. Please refer to notes 6(22) and 11 for further description of the recognition of deferred tax assets.

4) Goodwill impairment

The assessment of goodwill impairment requires the Bank to make subjective judgments to identify cash-generating units and estimate the recoverable amount of relevant cash-generating units. Please refer to note 6(12) for further description of goodwill recognition.

(6) Disclosures of Significant Accounts

1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 3,811,025	3,973,432
Checks for clearing	84,480	101,654
Deposits with other banks	12,445,306	2,364,017
Deposits with other banks—affiliates	10,195,055	7,729,669
Total	$ 26,535,866	14,168,772

(Continued)

Statements of cash flows were prepared under the definition of IAS7, cash and cash equivalents were consolidated by part of components of the items listed below:

	December 31, 2017	December 31, 2016
Cash and cash equivalents reported in the statement of balance sheets	$ 26,535,866	14,168,772
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	86,333,330	78,963,766
Securities purchased under resell agreements and debt instruments qualifying for cash and cash equivalents under the definition of IAS 7	3,356,185	3,196,000
Cash and cash equivalents reported in the statement of cash flows	$ **116,225,381**	**96,328,538**

2) Due from the Central Bank and call loans to banks

	December 31, 2017	December 31, 2016
Required reserve—checking account	$ 9,694,604	5,250,444
Required reserve—demand account	11,155,771	11,537,649
Required reserve—foreign currency	208,934	225,985
Required reserve—settlement account	1,519,654	1,518,165
Call loans to banks	32,265,692	17,599,251
Call loans to banks—affiliates	55,010,147	61,924,729
Trade finance receivables	5,263,453	4,052,976
Total	$ **115,118,255**	**102,109,199**

Pursuant to the Banking Law, the "required reserves" are deposited with the Central Bank. These reserves are for deposits and for interbank settlements.

"Required reserve" is calculated at prescribed rates on a monthly basis on the average balances of various deposit accounts and no interest is accrued on the checking account and the foreign currency account. Balances can be withdrawn on demand. Demand account accrues interests, other than the monthly adjustments to the account, no withdrawal is allowed.

The required reserve—settlement account is placed with the CBC for interbank settlement.

(Continued)

3) Financial instruments at fair value through profit or loss

The financial assets at fair value through profit or loss of the Bank were as follows:

	December 31, 2017	December 31, 2016
Interest-rate instruments		
Government bonds	$ 5,704,661	4,244,688
Corporate bonds	3,163,920	3,826,404
Financial debentures	99,992	-
Subtotal	8,968,573	8,071,092
Derivative financial assets		
Interest rate swap	1,766,254	2,609,676
Interest rate option	66,646	51,038
Spot/forward/swap	3,936,287	11,254,118
Cross currency swap	489,106	1,102,504
Foreign exchange option	561,699	3,381,213
Commodity swap	126,624	61,038
Subtotal	6,946,616	18,459,587
Total	$ 15,915,189	26,530,679

The financial liabilities at fair value through profit or loss of the Bank were as follows:

	December 31, 2017	December 31, 2016
Derivative financial liabilities		
Interest rate swap	$ 1,724,803	2,458,160
Interest rate option	-	3,135
Spot/forward/swap	4,946,649	7,222,933
Cross currency swap	25,098	1,496,854
Foreign exchange option	561,716	3,640,665
Commodity swap	126,638	61,092
Total	$ 7,384,904	14,882,839

4) Derivative financial instruments for hedging

Derivative financial assets for hedging were as follows:

	December 31, 2017	December 31, 2016
Fair value hedge:		
Interest rate swap	$ 9,784	30,347
Cash flow hedge:		
Cross currency swap	-	110,320
Total	$ 9,784	140,667

(Continued)

Derivative financial liabilities for hedging were as follows:

		December 31, 2017	December 31, 2016
Fair value hedge:			
Interest rate swap	$	1,269	-
Cash flow hedge:			
Interest rate swap		349	14,960
Cross currency swap		42,150	25,225
Total	$	43,768	40,185

(a) Fair value hedge

A fair value hedge is the hedging of the hedged items exposure to change in fair value of recognized assets or liabilities that are attributable to particular hedged risks that could affect profit or loss. As of December 31, 2017 and 2016, marked-to-market adjustments of hedged items and the corresponding hedging instruments accounted as fair value hedge were as follows:

Hedged items			**Hedging instruments**		
Underlying instruments		**December 31, 2017**	**Contract type**		**December 31, 2017**
Available-for-sale financial assets:					
Government bonds	$	945	Interest rate swap	$	(1,269)
Financial debentures		(8,023)	Interest rate swap		9,784
	$	(7,078)		$	8,515

Hedged items			**Hedging instruments**		
Underlying instruments		**December 31, 2016**	**Contract type**		**December 31, 2016**
Available-for-sale financial assets:					
Government bonds	$	(85)	Interest rate swap	$	70
Financial debentures		(27,916)	Interest rate swap		30,277
	$	(28,001)		$	30,347

For the years ended December 31, 2017 and 2016, net losses on the hedging derivative financial instruments listed above amounted to $20,703 thousand and $38,893 thousand, respectively, and net gains from the hedged risk of the hedged items amounted to $22,246 thousand and $38,490 thousand, respectively.

(b) Cash flow hedge

The Bank currently holds floating rate loans and foreign currency time deposits with floating rate, which are exposed to cash flow risk arising from the fluctuation of interest rate and foreign exchange rate. Interest rate swap and cross currency swap are designated as hedging instruments to reduce the cash flow risk resulting from the changes in interest rate and foreign exchange rate.

		Fair value	
Hedged items	**Financial instruments designated as hedging instruments**	**December 31, 2017**	**December 31, 2016**
Discounts and loans—floating interest rate	Interest rate swap	$ (349)	(14,960)
Deposits and remittances—fixed interest rate	Cross currency swap	(42,150)	85,095
Total		$ (42,499)	70,135

5) Securities purchased under resell agreements and debt instruments

	December 31, 2017	**December 31, 2016**
Securities purchased under resell agreements	$ 3,356,185	3,196,000
Face value of debt instruments	$ 3,388,782	3,200,000
Interest rate	0.33%~1.29%	0.33%~0.40%
Last settlement date	107.1.12	106.1.12
Resell price	$ 3,356,710	3,196,442

6) Receivables—net

	December 31, 2017	**December 31, 2016**
Accounts receivable factoring	$ 11,880,235	9,965,494
Credit cards accounts receivable	3,787,310	4,330,897
Financial derivatives credit default receivables	-	317,736
Accounts receivable	693,261	587,871
Interest receivable	1,814,970	1,458,049
Acceptances receivable	413,858	363,558
Accounts receivable—related parties	2,484,972	1,716,910
Unsettled trade receivable	-	47,424
Other	247,882	251,355
Subtotal	21,322,488	19,039,294
Less: allowance for bad debts—receivables	347,059	435,408
Total	$ 20,975,429	18,603,886

Please refer to note 6(10) for changes in allowance for bad debts of receivables listed above.

Receivables included in the total amounts of impairment assessment to determine the allowance for bad debts were as follows:

Item		December 31, 2017 Receivables	December 31, 2017 Allowance for bad debts
With objective evidence of impairment	Individual assessment of impairment	$ 196,516	196,311
	Portfolio assessment of impairment	425,026	5,316
Without objective evidence of impairment	Portfolio assessment of impairment	20,700,946	145,432
Total		$ 21,322,488	347,059

Item		December 31, 2016 Receivables	December 31, 2016 Allowance for bad debts
With objective evidence of impairment	Individual assessment of impairment	$ 539,404	411,885
	Portfolio assessment of impairment	467,482	6,009
Without objective evidence of impairment	Portfolio assessment of impairment	18,032,408	17,514
Total		$ 19,039,294	435,408

7) Discounts and loans—net

	December 31, 2017	December 31, 2016
Bills negotiations and bills and notes discounted	$ 410,590	682,626
Short-term loans and overdrafts	44,664,250	47,384,080
Short-term secured loans	7,836,299	12,324,192
Medium-term loans	39,023,197	31,478,466
Medium-term secured loans	4,044,137	5,928,623
Long-term loans	6,756,665	7,047,005
Long-term secured loans	164,249,576	166,433,552
Overdue loans	523,957	1,158,416
Subtotal	267,508,671	272,436,960
Add: premium adjustments on discounts and loans	11,743	44,738
Less: allowance for bad debts	4,708,177	5,200,241
Total	$ 262,812,237	267,281,457

As of December 31, 2017 and 2016, the Bank's loan with floating rate mentioned above has adopted interest rate swaps as the instrument for cash flow hedging in order to reduce the impact of cash flow that was affected by interest rate fluctuation.

Allowance for bad debt is provided by evaluating the risk of non recovery of specific outstanding loans, and the risk of non recovery is assessed by the probability of default.

Please refer to note 6(10) for changes in allowance for bad debts of discounts and loans.

(Continued)

Discounts and loans included in the total amounts of impairment assessment to determine the allowance for bad debts were as follows:

		December 31, 2017	
Item		**Discounts and loans**	**Allowance for bad debts**
With objective evidence of impairment	Individual assessment of impairment	$ 2,632,019	1,777,879
	Portfolio assessment of impairment	2,953,346	41,646
Without objective evidence of impairment	Portfolio assessment of impairment	261,923,306	2,888,652
Total		$ 267,508,671	4,708,177

		December 31, 2016	
Item		**Discounts and loans**	**Allowance for bad debts**
With objective evidence of impairment	Individual assessment of impairment	$ 3,170,046	2,112,172
	Portfolio assessment of impairment	3,394,216	53,398
Without objective evidence of impairment	Portfolio assessment of impairment	265,872,698	3,034,671
Total		$ 272,436,960	5,200,241

As of December 31, 2017 and 2016, the amounts of outstanding loans with interest charges suspended amounted to $523,957 thousand and $1,158,416 thousand, respectively. The amounts of interest not accrued derived from the aforementioned loans were $7,303 thousand and $54,097 thousand, respectively.

8) Available-for-sale financial assets—net

	December 31, 2017	December 31, 2016
Negotiable certificates of deposit	$ 106,966,306	86,864,209
Government bonds	78,168,707	64,613,270
Financial debentures	-	6,401,769
Total	$ 185,135,013	157,879,248
Marked-to-market adjustments for hedged assets included in the above balance	$ 945	(85)

(Continued)

9) Other financial assets—net

	December 31, 2017			December 31, 2016		
	Percentage of ownership %	Investment cost	Book value	Percentage of ownership %	Investment cost	Book value
Financial assets carried at cost:						
Taiwan Small and Medium Enterprises Development Corp.	4.84	$ 29,000	29,000	4.84	29,000	29,000
Financial Information Service Co., Ltd.	1.14	45,500	45,500	1.14	45,500	45,500
TSC Bio Venture Management, Inc.	5.00	8,505	8,505	5.00	8,505	8,505
Universal Venture Investment, Inc.	4.76	7,949	7,949	4.76	7,949	7,949
Windance Co., Ltd.	2.73	188,500	188,500	2.73	188,500	188,500
Taiwan Asset Service Corporation	2.94	50,000	50,000	2.94	50,000	50,000
Yang Guang Asset management Company	1.42	849	849	1.42	849	849
Subtotal		330,303	330,303		330,303	330,303
Less: accumulated impairment		-	202,941		-	202,941
		330,303	127,362		330,303	127,362
Restricted assets-debt instruments			7,460,090			14,284,345
Overdue receivable			50,272			326,181
Less: allowance for bad debts-overdue receivable			50,272			326,181
			$ 7,587,452			14,411,707

Please refer to note 6(10) for changes in allowance for bad debts of receivables of other non-loan financial assets.

For the years ended December 31, 2017 and 2016, the cash dividends from financial assets carried at cost recorded under net other non-interest income were $15,669 thousand and $17,552 thousand, respectively.

10) Allowance for bad debts and provision for guarantee liability

Movements of allowance for bad debts of receivables, discounts and loans and other financial assets; and movements of provisions for guarantee liability were disclosed below:

	2017				
	Allowance for bad debt				
	Receivables	Discounts and loans	Other financial assets	Provision for guarantee	Total
Beginning balance	$ 435,408	5,200,241	326,181	31,258	5,993,088
Add: Bad debt expense (reversal) and guarantee liability provision	(162,355)	898,757	29,993	1,952	768,347
Bad debt recovery	93,105	476,280	-	-	569,385
Less: Write-off	143,425	1,444,602	281,293	-	1,869,320
Exchange rate and others	(124,326)	422,499	24,609	-	322,782
Ending balance	$ 347,059	4,708,177	50,272	33,210	5,138,718

	2016				
	Allowance for bad debt				
	Receivables	Discounts and loans	Other financial assets	Provision for guarantee	Total
Beginning balance	$ 302,009	4,913,028	-	30,794	5,245,831
Add: Bad debt expense and guarantee liability provision	206,677	936,491	326,181	464	1,469,813
Bad debt recovery	101,802	436,687	-	-	538,489
Less: Write-off	131,507	890,979	-	-	1,022,486
Exchange rate and others	43,573	194,986	-	-	238,559
Ending balance	$ 435,408	5,200,241	326,181	31,258	5,993,088

(Continued)

11) Property and equipment—net

December 31, 2017		Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$	2,653,772	-	20,632	2,633,140
Buildings		2,776,918	1,214,261	-	1,562,657
Office equipment		453,445	450,650	-	2,795
Leasehold improvements		640,675	525,350	-	115,325
Other equipment		449,012	340,173	-	108,839
Total	$	6,973,822	2,530,434	20,632	4,422,756

December 31, 2016		Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$	2,820,096	-	42,351	2,777,745
Buildings		2,986,290	1,245,184	-	1,741,106
Office equipment		466,944	461,359	-	5,585
Leasehold improvements		598,713	551,264	-	47,449
Other equipment		455,208	339,914	-	115,294
Total	$	7,327,251	2,597,721	42,351	4,687,179

Change in cost movement:

		January 1, 2017	Increase	Decrease	Reclassify	December 31, 2017
Land	$	2,820,096	-	166,324	-	2,653,772
Buildings		2,986,290	24,086	233,458	-	2,776,918
Office equipment		466,944	1,648	15,147	-	453,445
Leasehold improvements		598,713	88,962	47,000	-	640,675
Other equipment		455,208	33,435	39,631	-	449,012
Total	$	7,327,251	148,131	501,560	-	6,973,822

		January 1, 2016	Increase	Decrease	Reclassify	December 31, 2016
Land	$	2,915,217	-	95,121	-	2,820,096
Buildings		3,062,698	-	76,408	-	2,986,290
Office equipment		558,270	1,499	92,825	-	466,944
Leasehold improvements		689,138	13,397	103,822	-	598,713
Other equipment		600,812	84,760	230,364	-	455,208
Total	$	7,826,135	99,656	598,540	-	7,327,251

Change in accumulated depreciation:

		January 1, 2017	Increase	Decrease	Reclassify	December 31, 2017
Buildings	$	1,245,184	88,007	118,930	-	1,214,261
Office equipment		461,359	4,200	14,909	-	450,650
Leasehold improvements		551,264	21,085	46,999	-	525,350
Other equipment		339,914	39,890	39,631	-	340,173
Total	$	2,597,721	153,182	220,469	-	2,530,434

(Continued)

	January 1, 2016	Increase	Decrease	Reclassify	December 31, 2016
Buildings	$ 1,193,649	91,717	40,182	-	1,245,184
Office equipment	532,385	21,007	92,033	-	461,359
Leasehold improvements	609,110	41,617	99,463	-	551,264
Other equipment	523,538	46,645	230,269	-	339,914
Total	$ 2,858,682	200,986	461,947	-	2,597,721

Change in accumulated impairment:

	January 1, 2017	Increase	Decrease	December 31, 2017
Land	$ 42,351	6,396	28,115	20,632

	January 1, 2016	Increase	Decrease	December 31, 2016
Land	$ 41,865	486	-	42,351

12) Intangible assets—net

	December 31, 2017	December 31, 2016
Goodwill	$ 3,156,048	3,156,048

Change in intangible assets:

	January 1, 2017	Increase	Decrease	December 31, 2017
Goodwill	$ 3,156,048	-	-	3,156,048

	January 1, 2016	Increase	Decrease	December 31, 2016
Goodwill	$ 3,156,048	-	-	3,156,048

13) Other assets—net

	December 31, 2017	December 31, 2016
Refundable deposits	$ 281,008	296,295
Derivatives collateral	708,533	533,330
Prepaid fee	121,369	146,344
Other	2,694	331,999
Total	$ 1,113,604	1,307,968

(Continued)

14) Deposits from the Central Bank and banks

	December 31, 2017	December 31, 2016
Deposits from banks	$ 751,093	1,074,427
Deposits from banks—affiliates	1,283,826	993,555
Overdrafts on banks	37,588	345,109
Call loans from banks	11,685,857	3,389,760
Call loans from banks—affiliates	45,334,163	25,609,204
Total	$ 59,092,527	31,412,055

15) Payables

	December 31, 2017	December 31, 2016
Accounts payable	$ 6,912	4,330
Accrued interest	363,308	344,627
Accrued expenses	1,948,540	1,856,178
Collection payable	40,362	43,987
Acceptances payable	413,858	363,558
Inter-branch check clearing payable	18,803	43,712
Temporary receipts in advance	60,372	64,710
Unsettled trade payable	-	255,211
Other	824,188	697,148
Total	$ 3,676,343	3,673,461

16) Deposits and remittances

	December 31, 2017	December 31, 2016
Checking accounts deposits	$ 2,533,695	2,626,583
Demand deposits:		
Demand deposits	206,692,694	189,010,368
Saving account deposits	126,917,638	133,406,929
Subtotal of demand deposits	333,610,332	322,417,297
Time deposits:		
Time deposits	132,260,271	126,412,106
Time savings deposits	36,838,365	41,046,415
Subtotal of time deposits	169,098,636	167,458,521
Remittances	167,597	104,532
Total	$ 505,410,260	492,606,933

As of December 31, 2017 and 2016, the Bank's foreign currency time deposits with fixed rate mentioned above has adopted cross currency swap of cash flow hedge in order to reduce the impact of cash flow that was affected by interest rate and foreign exchange rate fluctuation.

(Continued)

17) Financial debentures—net

As of December 31, 2017 and 2016, details of financial debentures issued by the Bank were as follows:

Bond	Conditions for issuance	December 31, 2017	December 31, 2016
91-1A	5 year term, interest accrued and paid semi annually, annual interest rate for the first 3 years is 4.25%, and 4.5% for the last 2 years; maturity date: July 19, 2007	$ 1,000	1,000
94-1	No maturity date, interest accrued and paid semi annually, based on the average one year regular floating rate of the nine largest banks plus 1.493%	2,100	2,100
94-2	No maturity date, interest accrued and paid semi annually, based on the average one year regular floating rate of the nine largest banks plus 1.493%	100	100
100-1E	6 year term, interest accrued and paid quarterly, annual interest rate is 1.51%; maturity date: May 19, 2017	-	1,000,000
100-1F	7 year term, interest accrued and paid quarterly, annual interest rate is 1.60%; maturity date: May 19, 2018	2,550,000	2,550,000
100-1I	7 year term, interest accrued and paid quarterly, TWD 90 day CP interest rate and TWD 90 day TIBOR interest rate from February 19, 2015 ; maturity date: May 19, 2018	4,000,000	4,000,000
100-4D	10 year term, interest accrued and paid quarterly, TWD 90 day CP interest rate plus 0.15% and TWD 90 day TIBOR interest rate plus 0.15% from March 29, 2015 ; maturity date: June 29, 2021	2,000,000	2,000,000
103-2	10 year term, USD based, interest accrued and paid semi annually, annual rate is 4.50%; maturity date: December 18, 2024	5,969,557	6,456,686
		14,522,757	16,009,886
Marked-to-market adjustment on hedged items		8,023	27,916
Total		$ 14,530,780	16,037,802

18) Other financial liabilities

	December 31, 2017	December 31, 2016
Structured deposits	$ 1,264,386	1,033,273

19) Provisions

	December 31, 2017	December 31, 2016
Provision for guarantee liability	$ 33,210	31,258
Provision for employee benefits	1,388,865	1,321,978
Provision for decommissioning, restoration and rehabilitation cost	150,425	111,436
Other miscellaneous provisions	14,895	17,896
Total	$ 1,587,395	1,482,568

20) Other liabilities

		December 31, 2017	December 31, 2016
Advance received from customers	$	27,858	26,656
Deferred income		98,694	71,487
Guarantee deposits received		27,658	28,533
Tax payable		620,731	670,686
Derivatives collateral		1,149,472	870,489
Other		107,820	86,780
	$	2,032,233	1,754,631

21) Employee benefits

(a) Defined contribution plan

The Bank's defined contribution plan follows the Labor Pension Act of the R.O.C. and makes monthly cash contributions to the employees' individual pension accounts at the Bureau of Labor Insurance at the rate of 6% of the employees' monthly salary. Under this plan, the Bank has no legal or constructive obligation to make other payments after the Bank makes the fixed amount of contribution to the Bureau of Labor Insurance.

For the years ended December 31, 2017 and 2016, the pension expense under defined contribution plan of the Bank amounted to $157,013 thousand and $151,729 thousand, respectively, recorded under operating expenses—employee benefits expense.

(b) Provision for employee benefits

i) Defined benefit obligation

		December 31, 2017	December 31, 2016
Defined benefit plan	$	1,388,865	1,321,978

The reconciliation between present value of the Bank's defined benefit obligation and fair value of defined benefit plan assets were as follows:

		December 31, 2017	December 31, 2016
Present value of defined benefits obligation	$	2,550,155	2,532,742
Less: fair value of defined benefits plan assets		1,161,290	1,210,764
Liability recognized in balance sheets	$	1,388,865	1,321,978

The Bank adopted the defined benefit plan, which contributes 5% of eligible employees' monthly salary to the retirement reserve trust account at the Bank of Taiwan. Employees' pension is calculated based on the employees' years of service under the Labor Standard Act and the employees' final average monthly salary at the time of retirement. Final average monthly salary refers to the average 6-month monthly salary preceding retirement including basic monthly salary, meal allowance, car allowance, shift allowance, transportation allowance, sales incentives, and overtime payment.

(Continued)

ii) The percentage of plan assets were as follows:

Unit: %

	December 31, 2017	December 31, 2016
Cash	18.00	20.80
Stocks	50.80	47.20
Short-term notes	3.20	3.60
Bonds	28.00	28.40
Total	**100.00**	**100.00**

iii) Change in defined benefit obligation

The change in defined benefit obligation for the years ended Decmeber 31, 2017 and 2016 were as follows:

		2017	2016
DBO at beginning of period	$	2,532,742	2,900,317
Current service cost and interest cost		98,943	108,104
Remeasurements of the net defined benefit liability			
Actuarial loss (gain)–experience		32,498	(44,979)
Actuarial loss (gain)–financial assumption changes		68,235	(71,514)
Benefits paid from plan assets		(105,142)	(113,962)
Benefits paid directly by the Bank		(77,121)	(76,299)
Settlements		-	(170,740)
Termination benefits		-	1,815
DBO at end of period	$	2,550,155	2,532,742

iv) Change in plan assets

The change in defined benefit plan assets for the years ended December 31, 2017 and 2016 were as follows:

		2017	2016
Fair value of plan assets beginning of period	$	1,210,764	1,298,162
Interest income		15,616	12,162
Remeasurements of the net defined benefit assets			
Actuarial loss–return on plan assets (exclude interest)		(3,881)	(3,363)
Employers contributions		43,933	85,436
Benefit paid from plan assets		(105,142)	(113,962)
Settlements		-	(67,671)
Fair value of plan assets at end of period	$	1,161,290	1,210,764

v) Change in asset ceiling

The Bank has an unconditional right to the surplus of the plan. As a result, the asset ceiling do not apply to the defined benefit plan.

(Continued)

vi) Recognized as profit and loss cost

The recognized as profit and loss cost for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Current service cost	$ 67,253	80,808
Net interest on the net defined benefit liability	16,074	15,134
Settlement gain	-	(40,072)
Termination benefits	-	1,815
	$ 83,327	57,685

vii) Recognized as other comprehensive income of remeasurements of defined benefit plan

Recognized as other comprehensive income of remeasurements of defined benefit plan for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Cumulated surplus at beginning of period	$ (30,713)	82,417
Recognized in current period	104,614	(113,130)
Cumulated surplus at end of period	$ 73,901	(30,713)

viii) Primary actuarial assumptions

	2017	2016
Defined benefit plan discount rate	1.00 %	1.30 %
Incremental rate of future compensation levels	3.00 %	3.00 %

The estimated payment of the Bank's employer contribution to its defined benefit plan is amount to $46,609 thousand, which is expected to be paid within a year of its balance sheet date in 2017.

Weighted average duration of the defined benefit obligation is 8.9 years.

ix) The sensitivity analysis

When calculating the present value of defined benefits obligation, the Bank must make judgments and estimates to determine the actuarial assumptions, including changes in discount rate and future salaries. Any changes in the actuarial assumptions may materially affect the amount of defined benefit obligation of the Bank.

As of December 31, 2017 and 2016, the effects of changes in actuarial assumptions on the present value of defined benefit obligation were as follows:

	Effect on DBO	
	0.50% Increase	0.50% Decrease
December 31, 2017		
Discount rate	(109,522)	117,486
Salary increase rate	116,196	(109,391)
December 31,2016		
Discount rate	(110,418)	118,564
Salary increase rate	117,485	(110,482)

(Continued)

Except significant assumptions independently used for the aforementioned sensitivity analysis, the other assumptions were kept unchanged to estimate the effect of the change of single assumption. In real case, changes of several assumptions might be connected together. Sensitivity analysis was performed under the same approach as that adopted to calculate the defined benefit obligation in balance sheets.

The approach adopted to perform the sensitivity analysis during this period remained the same as previous period.

22) Income tax

The Bank adopts a 17% statutory tax rate and calculates the basic income tax based on the Income Basic Tax Act.

For the years ended December 31, 2017 and 2016, the income tax expense and related accounts were as follows:

		2017	2016
Current income tax expense	$	48,889	108,074
Deferred income tax expense		346,663	502,294
Income tax expense	$	395,552	610,368

As of December 31, 2017 and 2016, the current tax assets of the Bank amounted to $289,519 thousand and $284,209 thousand, respectively, the current tax liabilities of the Bank amounted to $20,583 thousand and $17,998 thousand, respectively.

The differences between the expected income tax at statutory rates and the income tax expense were as follows:

		2017	2016
Income tax from profit before tax at statutory rate	$	440,418	132,156
Permanent difference		(81,776)	6,565
Prior-year income tax adjustments		805	402,012
Basic income tax		20,583	-
Other adjustments per tax regulation		15,522	69,635
Income tax expense	$	395,552	610,368

For the years ended December 31, 2017 and 2016, the components of tax expense (benefit) recognized as other comprehensive income were as follows:

		2017	2016
Item that may not to be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plan	$	(17,785)	19,232
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets recognized	$	(20,175)	(66,919)
Change in fair value of cash flow hedges recognized		6,034	(6,532)
Total	$	(14,141)	(73,451)

(Continued)

The components of deferred income tax expense (benefit) were as follows:

		2017	2016
Bad debt expense and guarantee liability provision	$	21,370	(28,912)
Depreciation expense		(131)	1,298
Expenses from share-based payments		(3,048)	(4,912)
Employee benefits		6,414	28,399
Provisions		18,379	(13,312)
Deferred income		27,114	74,732
Loss carryforwards		222,032	401,363
Unrealized interest income on financial assets		881	(10,015)
Amortization of goodwill		53,652	53,653
	$	346,663	502,294

The Bank's temporary difference of deferred tax components, based on the 17% tax rate for December 31, 2017 and 2016 were as follows:

		December 31, 2017	December 31, 2016
Deferred tax assets:			
Bad debt expense and guarantee liability provision	$	357,349	378,719
Depreciation expense		28,992	28,861
Impairment loss on assets		34,500	34,500
Expenses from share-based payments		39,823	36,775
Employee benefits		236,105	224,734
Provisions		8,442	26,821
Deferred income		-	27,114
Loss carryforwards		779,180	1,001,212
Unrealized loss on available-for-sale financial assets		2,417	-
Unrealized loss on cash flow hedge		2,246	8,280
Total	$	1,489,054	1,767,016
Deferred tax liabilities:			
Unrealized interest income on financial assets	$	77,104	76,223
Amortization of goodwill		482,875	429,223
Land value increment tax		120,468	120,468
Unrealized gain on available-for-sale financial assets		2,072	19,830
Total	$	682,519	645,744

The movements of deferred tax items were as follows:

		2017	2016
Beginning balance	$	1,121,272	1,566,099
Recognized in current period profit and loss		(346,663)	(502,294)
Land value increment tax		-	3,248
Recognized in other comprehensive income		31,926	54,219
Ending balance	$	806,535	1,121,272

(Continued)

The income tax returns of the prior years have been assessed up to the year 2015.

23) Information of imputation credit account

	December 31, 2017	December 31, 2016
Imputation credit account	Note	290,340

The accumulated earnings were all generated after 1998, which is according to Regulations Governing the Preparation of Financial Reports and the IFRSs as endorsed by the FSC.

	2017 (estimated)	2016 (actual)
Tax creditable ratios of distribution of retained earnings to R.O.C. residents	Note	10.69 %

Preceding information of imputation credit account is according with the Ministry of Finance in October 17, 2013 Tai Tsai Shui No.10204562810 amount of processing requirements.

Note: According to the amendment to the "Income Tax Act" enacted by the President of the Republic of China (Taiwan) on February 7, 2018, effectively on January 1, 2018, companies will no longer be required to record, calculate, and distribute their imputation credit account and will not be applied to related penalties due to the abolishment of the imputation tax system.

24) Stockholders' equity

(a) Capital

As of December 31, 2017, the Bank's authorized capital was $30,000,000 thousand, representing 3,000,000 thousand shares with par value of NTD 10 per share, and issued capital $29,105,720 thousand, representing 2,910,572 thousand common shares.

(b) Capital surplus

The R.O.C. Company Act as amended in January 2012 requires capital surplus to be used to offset an accumulated deficit before capitalization to shareholders' equity as realized capital surplus or distribution of cash dividends. The aforementioned realized capital surplus includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Bank. In accordance with "Regulations Governing the Offering and Issuance of Securities", the amount of capital surplus capitalized each year may not exceed 10 percent (10%) of the Bank's issued share capital.

(c) Legal reserve

Whenever the Bank generates a profit in accordance with "The Banking Act of The Republic of China". The bank, at the time of distributing its earnings for each fiscal year, shall set aside thirty percent (30%) of its after tax earnings as legal reserve, until the legal reserve equals its paid-in capital. Otherwise, the maximum cash profits, which may be distributed, shall not exceed fifteen percent (15%) of the Bank's paid in capital. In addition to the legal reserve, a special reserve can be appropriated after being approved during the stockholders' meeting. The board of directors approved the distribution of the 2017 and 2016 earnings on June 28, 2017 and 2016, amounting to $50,105 thousand and $431,695 thousand, respectively.

(d) Special reserve

In terms of the Financial Supervisory Commission, Executive Yuan, Jin Guan Zheng Fa No. 1010012865 dated April 6, 2012, the first time a public company adopts International Financial Reporting Standards ("IFRS"), it must set aside special reserves equal in amounts to those portions of unrealized revaluation gains and cumulative translation adjustments (both of which are sub accounts under booked shareholder equity) that is shifted to retained earnings as a result of the claiming of an IFRS 1 exemption. However, if the increment of retained earnings resulted from first time adoption of IFRS is not sufficient at the date of transition; the Bank could recognize that incremental amount only. When a company subsequently uses, disposes of, or reclassifies the assets in question, a proportional amount of the special reserve set aside previously may be reversed to distributable earnings. In accordance with that regulation, under the situation of not having sufficient increment of retained earnings resulted from first time adoption of IFRS, the Bank can shift that incremental amount $239,413 thousand to special reserves.

In 2016, due to a disposal of assets mentioned above by the Bank, the proportional amount of the special reserve resulted from the first time adoption of IFRS was reversed and increased unappropriated retained earnings amounted to $5,484 thousand.

In accordance with Jin Guan Yin Fa Zhi No. 10510001510 issued by the Financial Supervisory Commission dated May 25, 2016, public banks shall appropriate special reserves between 0.5%~1% of their net profit after tax while distributing the earnings for the fiscal years 2016-2018 in response to the development of financial technology in order to protect the rights and interests of bank practitioners. The board of directors, representing the shareholders, approved the appropriation of special reserves amounting to $835 thousands at 0.5% of the net profit after tax on June 28, 2017.

(e) Other equity interest

Changes in the Bank's other equity interest were as follows:

	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total
January 1, 2017	$ (121,316)	(40,427)	(161,743)
Available-for-sale financial assets—net			
—Valuation adjustment	185,928	-	185,928
Cash flow hedge			
—Unrealized gain	-	29,460	29,460
December 31, 2017	$ 64,612	(10,967)	53,645

(Continued)

	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total
January 1, 2016	$ 624,125	(8,534)	615,591
Available-for-sale financial assets—net			
—Valuation adjustment	(745,441)	-	(745,441)
Cash flow hedge			
—Unrealized loss	-	(31,893)	(31,893)
December 31, 2016	$ (121,316)	(40,427)	(161,743)

(f) Dividend policy and appropriation of earnings

After the amendment to the Articles of Incorporation approved by the board of directors on November 24, 2015, from the profit earned by the Bank as shown in the final annual account after tax, 30% of the profit shall be first set aside for the legal reserve, then an amount shall be set aside for the special reserve. The remaining profits, if any, shall be distributed to shareholders as dividend and bonus in accordance with the shareholders' resolution.

On June 28, 2017 and 2016, the board of directors, representing shareholders, approved the distribution of retained earnings and distributed cash dividends for 2016 and 2015 were as follows:

	2016	2015
Legal reserve appropriated	$ 50,105	431,695
Special reserve appropriated	835	-
Cash dividends of ordinary share	215,460	1,034,181
Total	$ 266,400	1,465,876

The relevant information about earnings distribution or deficit compensation can be accessed through Market Observation Post System or other sites.

25) Share-based payments

The SC PLC Group operates a number of share-based arrangements for its executive directors and employees. For the years ended December 31, 2017 and 2016, the share-based payment schemes adopted by the Bank were as follows:

(a) All Employee Sharesave Plan (Original: International Sharesave Schemes "ISS")

Under the All Employee Sharesave Plans ("AESP"), employees may open a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the SC PLC Group at a discount of up to 20 percent on the share price at the date of invitation (this is known as the "option exercise price"). There are no performance measures attached to options granted under the AESP and no grant price is payable to receive an option.

The option movements of the AESP were as follows:

	2017 Units	2016 Units
Beginning balance	381,569	471,278
Add: granted	42,771	60,928
Less: exercised	455	-
lapsed	99,362	150,637
Ending balance	324,523	381,569

For the years ended December 31, 2017 and 2016, the costs of the AESP charged to profits or losses were $7,141 thousand and $10,422 thousand, respectively, recorded under operating expenses—employee benefits expense.

Options under the AESP are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

	2017
Grant date	October 3
Share price at grant date	£ 7.71
Exercise price	£ 6.20
Vesting period (years)	3
Expected volatility (%)	34.9
Expected option life (years)	3.33
Risk-free rate (%)	0.47
Expected dividend yield (%)	1.87
Fair value	£ 2.32

	2016
Grant date	October 4
Share price at grant date	£ 6.50
Exercise price	£ 5.30
Vesting period (years)	3
Expected volatility (%)	34.2
Expected option life (years)	3.33
Risk-free rate (%)	0.13
Expected dividend yield (%)	3.04
Fair value	£ 1.71

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant.

(Continued)

(b) Restricted Share Award (Original: Restricted Share Scheme "RSS")

Restricted Share Awards ("RSA") are used to deliver 2 types of awards, buy-out awards and deferred awards.

Buy-out awards are made outside of the annual performance process as compensation to new joiners who forfeit granted-but-unvested variable remuneration awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Bank to meet regulatory requirements relating to buyouts, and is in line with market practice. In line with similar plans operated by the competitors of the Bank, RSA is not subject to an annual limit and do not have any performance measures.

Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Bank to meet regulatory requirements relating to deferral levels, and is in line with market practice.

The option movements of the RSA were as follows:

	2017 Units	2016 Units
Beginning balance	133,354	141,434
Add: granted	70,061	22,561
dividend	-	672
Less: exercised	55,399	22,139
lapsed	6,533	9,174
Ending balance	**141,483**	**133,354**

For the years ended December 31, 2017 and 2016, the costs of the RSA charged to profits or losses were $10,916 thousand and $16,063 thousand, respectively, recorded under operating expenses—employee benefits expense.

The fair value for all employees is based on 100 per cent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends. The expected dividend yield assumption is based on a historical average over a period commensurate with this "average" period until vesting, or over one year if the average period until vesting is less than one year.

	2017					
Grant date	November 29		October 3		June 15	
Share price at grant date	£ 7.43		£ 7.56		£ 7.69	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1	-	7.43	-	7.56	-	7.69
2	-	7.43	-	7.56	0.50	7.61
2/3	-	-	-	-	-	-
3	1.60	7.08	1.60	7.21	2.10	7.23
4	2.20	6.80	2.20	6.92	2.50	6.96
5	2.40	6.58	2.40	6.70	-	-
6	2.60	6.36	2.60	6.47	-	-

(Continued)

	2017	
Grant date	March 13	
Share price at grant date	£ 7.43	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)
0.5	-	7.43
1	-	7.43
2	0.50	7.35
2/3	1.90	7.08
3	2.10	6.99
4	2.50	6.72

	2016					
Grant date	November 30		October 4		June 15	
Share price at grant date	£ 6.41		£ 6.50		£ 5.05	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1	-	6.41	-	6.50	-	-
2	2.40	6.11	2.40	6.20	-	-
2/3	2.50	6.03	2.50	6.11	3.60	4.62
3	3.00	5.87	3.00	5.95	-	-
2/3/4	-	-	-	-	-	-
1/2/3/4	-	-	-	-	-	-
4	-	-	3.10	5.76	-	-

	2016			
Grant date	May 4		March 11	
Share price at grant date	£ 5.08		£ 4.68	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
2/3	3.60	4.65	3.50	4.30
3	3.40	4.60	-	-
2/3/4	3.80	4.65	-	-
1/2/3/4	-	-	3.50	4.30
4	3.40	4.44	-	-

(c) Performance Share Award (Original: Performance Share Plan "PSP")

The Bank' s previous plan for delivering performance shares is now closed to new grants; however, there remain outstanding vested awards. Under the PSA, half the award was dependent upon total shareholder return ("TSR") performance and the balance was subject to a target of defined Earnings Per Share ("EPS") growth. Both measures used the same three-year period and were assessed independently.

(Continued)

The option movements of the PSA (PSP) were as follows:

	2017 Units	2016 Units
Beginning balance	40,980	65,524
Less: exercised	-	1,883
lapsed	36,400	22,661
Ending balance	**4,580**	**40,980**

For the years ended December 31, 2017 and 2016, the costs of the PSA (PSP) charged and reversed to profit or loss were $314 thousand and $3,400 thousand, respectively, recorded under operating expenses—employee benefits expense.

(d) Supplementary Restricted Share Scheme ("SRSS")

The Supplementary Restricted Share Award ("SRSS") is now closed to new grants and is replaced by Restricted Share Awards ("RSA"); however, there remain outstanding vested awards. Awards were generally in the form of nil cost options and did not have any performance measures. Generally deferred restricted share awards vested equally over three years and for non-deferred awards half vested two years after the date of grant and the balance after three years.

The option movements of the SRSS were as follows:

	2017 Units	2016 Units
Beginning balance	11,905	12,027
Less: exercised	11,693	122
lapsed	212	-
Ending balance	**-**	**11,905**

For the year ended December 31, 2016, the cost of the SRSS charged to profits or loss was $340 thousand, recorded under operating expenses—employee benefit expense.

(e) Long-term Incentive Plan Awards

Long-term Incentive Plan Awards ("LTIP") are granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return ("TSR"); return on equity ("RoE") with a Common Equity Tier 1 ("CET1") underpin; strategic measures; earnings per share ("EPS") growth; and return on risk-weighted assets ("RoRWA"). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway requirement that results in the award lapsing if not met.

The option movements of the LTIP were as follows:

	2017 Units	2016 Units
Beginning balance	51,263	-
Add: granted	-	51,263
Ending balance	**51,263**	**51,263**

(Continued)

For the years ended December 31, 2017 and 2016, no related cost of stock warrants was recorded.

	2017	
Grant date	March 13	March 13
Share price at grant date	£ 7.43	£ 7.43
Vesting period (years)	3/4/5/6/7	3/4/5/6/7
Fair value (RoE)	£ 2.48	£ 2.48
Fair value (TSR)	£ 1.81	£ 1.38
Fair value (Strategic)	£ 2.48	£ 2.48

	2016			
Grant date	June 15	May 4	May 4	March 11
Share price at grant date	£ 5.05	£ 5.08	£ 5.08	£ 4.68
Vesting period (years)	3	3	3/4/5/6/7	3
Fair value (RoE)	£ 1.68	£ 1.69	£ 1.69	£ 1.56
Fair value (TSR)	£ 1.24	£ 1.25	£ 1.12	£ 1.15
Fair value (Strategic)	£ 1.68	£ 1.69	£ 1.69	£ 1.56

The vesting of awards granted in 2017 and 2016 is subject to the satisfaction of RoE (subject to a capital underpin) and relative TSR performance measures and achievement of a strategic scorecard. The fair value of the TSR component is calculated using the probability of meeting the measures over a three year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the RoE and strategic measures in the scorecard, to determine the accounting charge.

(f) Upfront Shares Awards (UFSA)

Upfront Shares are awards to the Material Risk Takers (MRTs) who are met specific criteria after assessment and identification process as part of their non-deferred variable compensation for that performance year. Typically, upfront shares are ordinary Standard Chartered PLC shares that are purchased with beneficial ownership transferred to the individual (after any relevant tax deductions or withholdings) through a specified nominee arrangement. Upfront shares awarded to MRTs are subject to a minimum retention period of twelve months from the award date. During this holding period, the upfront shares cannot be sold or transferred.

For the year ended December 31, 2017, the cost of the UFSA charged to profit or loss was $7,667 thousand, recorded under operating expenses—employee benefit expense.

26) Earnings per share

	2017	2016
Net income attributable to common stockholders (after tax)	$ 2,195,140	167,018
Common stock (in thousands)	$ 2,910,572	2,910,572
Basic EPS (in dollars)	$ 0.75	0.06

Since the Bank's implementation of share-based payment transactions would proceed by cash settlement, there is no impact on the Bank's weighted-average shares of common stock outstanding during the period.

(Continued)

27) Net interest income

		2017	2016
Interest income			
Interest income, discounts and loans	$	6,715,260	7,061,118
Interest income, accounts receivable factoring		154,947	134,301
Interest income, due from banks		1,285,256	707,582
Interest income, available-for-sale financial assets		1,045,311	1,272,484
Interest income, credit card recurrence		238,423	264,080
Interest income, other		166,141	286,124
Subtotal		9,605,338	9,725,689
Interest expense			
Interest expense, deposits		3,314,402	2,746,649
Interest expense, due to banks		558,194	222,812
Interest expense, financial debentures		389,392	584,419
Interest expense, other		13,101	13,891
Subtotal		4,275,089	3,567,771
Total	$	5,330,249	6,157,918

28) Net service fee income

		2017	2016
Service fee			
Service fee, loan	$	126,618	87,959
Service fee, agency		6,259	5,650
Service fee, insurance commission		1,855,818	1,758,772
Service fee, remittance and interbank		102,990	111,606
Service fee, guarantee, import, export and acceptance payable		53,645	57,066
Service fee, credit card		269,501	300,346
Service fee, trust		2,200,082	1,747,117
Service fee, factoring		20,395	21,283
Service fee, underwriting		134,286	287,917
Service fee, other		203,451	155,689
Subtotal		4,973,045	4,533,405
Service charge			
Service charge, interbank		152,553	163,138
Service charge, agency		109,949	124,559
Service charge, custodian		132,126	112,434
Service charge, other		120,573	122,021
Subtotal		515,201	522,152
Total	$	4,457,844	4,011,253

(Continued)

29) Gain on financial assets or liabilities at fair value through profit or loss

	2017	2016
Gain (loss) on disposal		
Interest-rate instruments	$ 61,888	70,833
Derivative financial instruments	582,878	(50,027)
Subtotal	644,766	20,806
Gain (loss) on valuation		
Interest-rate instruments	17,589	(52,065)
Derivative financial instruments	736,410	2,293,654
Subtotal	753,999	2,241,589
Interest income	61,531	42,295
Total	$ 1,460,296	2,304,690

30) Realized gain on available-for-sale financial assets

	2017	2016
Profit on sale—debt instruments	$ 9,061	59,642

31) Net other non-interest income

	2017	2016
Administrative support service income	$ 3,184	3,194
Net gain (loss) on disposal of assets	130,460	(29,387)
Gain on financial assets carried at cost	15,669	17,552
Rental income	8,607	11,542
Net gain (loss) on fair value hedge	1,543	(403)
Other	8,798	11,914
Total	$ 168,261	14,412

32) Impairment losses on assets

	2017	2016
Impairment losses—land	$ 6,396	486

33) Bad debt expense and guarantee liability provision

	2017	2016
Bad debt expense	$ 766,395	1,469,349
Guarantee liability provision	1,952	464
Total	$ 768,347	1,469,813

34) Employee benefits expense

	2017	2016
Salary expense	$ 4,240,413	4,167,467
Employee insurance	300,213	298,096
Pension		
Defined contribution plan	157,013	151,729
Defined benefit plan	83,327	57,685
Other	306,121	374,056
Total	$ 5,087,087	5,049,033

(Continued)

In accordance with the Articles of Incorporation, from the profit earned by the Bank as shown in the final annual account before tax, 0.01% shall be reserved as employees' remuneration. However, if the Bank has accumulated deficit, it shall be set aside first to compensate the loss.

The accrued employee's remuneration of the Bank for the year ended December 31, 2017 was $259 thousand, recorded under operating expenses— employee benefits expense. Any difference between the actual and estimated distributed bonus in 2018 shall be treated as changes in accounting estimates and recognized as profit or loss in 2018.

The accrued employee's remuneration of the Bank for the years ended December 31, 2016 was $78 thousand, recorded under operating expenses—employee benefits expense, with no difference between the actual and estimated distributed bonus. Relevant information can be accessed through Market Observation Post System.

For the years ended December 31, 2017 and 2016, the average numbers of the Bank's employees were 3,276 and 3,371, respectively.

35) Depreciation and amortization expenses

	2017	2016
Depreciation expense		
Buildings	$ 88,007	91,717
Office equipment	4,200	21,007
Leasehold improvements	21,085	41,617
Other equipment	39,890	46,645
Total	$ 153,182	200,986

36) Other general and administrative expenses

	2017	2016
Rental expense	$ 447,876	535,905
Office supplies	90,238	85,686
Postage	173,753	177,308
Repairs and maintenance	273,566	246,149
Advertising expense	193,037	188,124
Utilities fee	81,062	87,735
Taxes	611,444	563,130
Professional service fee	75,765	86,613
Operational and advisory service fee	1,042,050	1,012,446
Consulting and technical support service fee	530,087	287,723
Wholesale banking business service fee	128,997	195,000
Building management fee	139,807	124,110
Computer management fee	326,560	313,816
Other	748,697	828,231
Total	$ 4,862,939	4,731,976

(Continued)

37) Disclosure of financial instruments

(a) Financial instruments measured at fair value

i. Valuation of financial instruments measured at fair value:

i) Financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets—net, derivative financial assets and liabilities for hedging—net, and Other financial assets—debt instruments: for investment securities that have directly observable market values available, securities are valued using inputs proxied from the same or closely related or inputs proxied from a different underlying. Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows.

ii) Derivative financial assets and liabilities: wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets, the market data used for price may include those sourced from recent trade data involving external counterparties or third parties such as Reuters, Bloomberg, and brokers. Where quoted market prices are not available, fair values have been determined using the prices sources from consensus pricing providers, to the extent possible, use market observable inputs, such as Totem or Markit or similar instruments' prices.

ii. The Bank makes a credit valuation adjustment ("CVA") against derivative products. CVA is an estimate of the adjustment to fair value to account for the possibility that the counterparty may default and the bank would not receive the full market value of the transactions. CVA is determined by applying the counterparty's probability of default to counterparty's loss given default ("LGD") and exposure at default ("EAD"), whereas, debit valuation adjustment ("DVA") is calculated on its derivative liabilities and issued debt designated at fair value, including structured notes. DVA is determined by applying the Bank's PD to the Bank's negative expected exposure against the counterparty. Collateral held are taken into account for the calculation of CVA and DVA.

Internal model is used to calculate the probability of default ("PD") and the loss given default ("LGD"); whereas exposure at default ("EAD") is on simulation basis. The methodology used to determine DVA on derivative liabilities is consistent with the methodology used to determine counterparty CVA on derivative assets.

iii. The quantitative information of significant unobservable amount (level 3) at fair value

The Bank does not have level 3 financial instruments.

iv. The sensitivity analysis of the fair value against the reasonably possible alternative assumptions while measuring level 3 fair value

The Bank does not have level 3 financial instruments.

(Continued)

v. The definition of fair value hierarchy of financial instruments measured at fair value

i) Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Active markets are defined as markets that meet the following criteria: (1) the asset or liability traded in the market have similar attributes; (2) there is a willing buyer and seller for the asset or liability in the market at any given time; (3) price information on the asset or liability can be accessed by the general public.

ii) Level 2 inputs are inputs other than quoted prices in active markets that are observable, including those inputs that can be observed directly (quoted prices) or indirectly (derived from quoted prices) from active markets. For example:

a. The quoted price in similar financial instruments' active market was referred to the fair value of financial instruments held by and based on similar financial instruments' recent quoted prices; the judgment of similar financial instruments should follow the characteristics of the financial instruments and trading conditions. The factors that require the fair value of financial instruments to be adjusted with compatible similar financial instruments which have observable trading prices might include recent financial instruments trading price already have time gap (i.e. has been a while since last trading time), the difference between the financial instruments trading conditions, transaction prices involved with a related party, and the correlation between observable transaction price of similar financial instruments and the price of financial instruments held.

b. Quoted prices for identical or similar assets or liabilities in markets those are not active.

c. Fair value determined based on a valuation model. Inputs for the model (for example, interest rates, yield curves, volatilities, etc.) can be observed from the market (these observable inputs are obtained from market information, and when they are being used in the model, the resulting valuation for the asset or liability shall represent prices anticipated by the market participants).

d. Inputs are derived principally from or corroborated by observable market data by correlation or other means.

iii) Level 3 means to measure the fair value of the input parameters are not based on observable market data (inputs which are unobservable).

vi. Fair value hierarchy information of financial instruments measured at fair value:

Financial instruments at fair value	December 31, 2017 Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Debt instruments	$ 8,968,573	-	8,968,573	-
Available-for-sale financial assets—net				
Debt instruments	185,135,013	-	185,135,013	-
Other financial assets—net				
Restricted assets—debt instruments	7,460,090	-	7,460,090	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	6,946,616	13,197	6,933,419	-
Derivative financial assets for hedging—net	9,784	-	9,784	-
Liabilities:				
Financial liabilities at fair value through profit or loss	7,384,904	30,925	7,353,979	-
Derivative financial liabilities for hedging—net	43,768	-	43,768	-

Financial instruments at fair value	December 31, 2016 Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Debt instruments	$ 8,071,092	-	8,071,092	-
Available-for-sale financial assets—net				
Debt instruments	157,879,248	-	157,879,248	-
Other financial assets—net				
Restricted assets-debt instruments	14,284,345	-	14,284,345	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	18,459,587	15,836	18,443,751	-
Derivative financial assets for hedging—net	140,667	-	140,667	-
Liabilities:				
Financial liabilities at fair value through profit or loss	14,882,839	10,221	14,872,618	-
Derivative financial liabilities for hedging—net	40,185	-	40,185	-

(b) Financial instruments measured at amortised cost

i. Valuation of financial instruments measured at amortised cost:

i) Non derivative short term financial assets and liabilities with short maturity dates, including cash and cash equivalents, receivables— net, payables, related parties payable and other financial liabilities, the fair value is their carrying amounts.

(Continued)

ii) Due from the Central Bank and call loans to banks and deposits from the Central Bank and banks: the fair value of floating rate placements and borrowings and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits or interest earning loans is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

iii) Securities purchased under resell agreements and debt instruments: for investment securities that have directly observable market values available, securities are valued using inputs proxied from the same or closely related or inputs proxied from a different underlying. Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows.

iv) Discounts and loans — net: discounts and loans are presented net of provisions for impairment. The fair value of Discounts and loans to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates or secondary syndication market pricing to determine fair value.

v) Financial assets carried at cost: for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments because its fair value cannot be measured reliably. At balance sheet date, the Bank will evaluate whether there is an objective evidence of impairment on the investee by using the net book value of the investee in its most recent financial statement and the costs of investment. Its book value after impairment will be used as its fair value.

vi) Deposits and remittances: the estimated fair value of deposits and remittances with no stated maturity and floating rate deposits is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounting cash flows using the prevailing market rates with a similar credit risk and remaining maturity.

vii) Financial debentures — net: the aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity. The fair value of subordinated debt is estimated based on its book value on the balance sheet.

(Continued)

ii. Fair value of financial instruments measured at amortised cost:

Financial assets	December 31, 2017 Book value	Fair value
Cash and cash equivalents	$ 26,535,866	26,535,866
Due from the Central Bank and call loans to banks	115,118,255	115,132,696
Securities purchased under resell agreements and debt instruments	3,356,185	3,419,567
Receivables－net	20,975,429	20,975,429
Discounts and loans－net	262,812,237	263,175,665
Other financial assets－net		
Financial assets carried at cost	127,362	127,362

Financial assets	December 31, 2016 Book value	Fair value
Cash and cash equivalents	$ 14,168,772	14,168,772
Due from the Central Bank and call loans to banks	102,109,199	102,110,353
Securities purchased under resell agreements and debt instruments	3,196,000	3,236,428
Receivables－net	18,603,886	18,603,886
Discounts and loans－net	267,281,457	267,163,546
Other financial assets－net		
Financial assets carried at cost	127,362	127,362

Financial liabilities	December 31, 2017 Book value	Fair value
Deposits from the Central Bank and banks	$ 59,092,527	59,121,670
Payables	3,676,343	3,676,343
Related parties payable	8,353,294	8,353,294
Deposits and remittances	505,410,260	505,207,361
Financial debentures－net	14,530,780	14,530,780
Other financial liabilities	1,264,386	1,264,386

Financial liabilities	December 31, 2016 Book value	Fair value
Deposits from the Central Bank and banks	$ 31,412,055	31,415,765
Payables	3,673,461	3,673,461
Related parties payable	10,207,386	10,207,386
Deposits and remittances	492,606,933	492,851,047
Financial debentures－net	16,037,802	16,037,802
Other financial liabilities	1,033,273	1,033,273

(Continued)

iii. Fair value hierarchy information of financial instruments measured at amortised cost:

Financial instruments measured at amortised cost	December 31, 2017				
	Book value	Fair value Level 1	Level 2	Level 3	Total
Non-derivative financial instruments					
Assets:					
Cash and cash equivalents	$ 26,535,866	-	26,535,866	-	26,535,866
Due from the Central Bank and call loans to banks	115,118,255	-	115,132,696	-	115,132,696
Securities purchased under resell agreements and debt instruments	3,356,185	-	3,419,567	-	3,419,567
Receivables－net	20,975,429	-	20,975,429	-	20,975,429
Discounts and loans－net	262,812,237	-	3,500,000	259,675,665	263,175,665
Other financial assets－net					
Financial assets carried at cost	127,362	-	-	127,362	127,362
Liabilities:					
Deposits from the Central Bank and banks	59,092,527	-	59,121,670	-	59,121,670
Payables	3,676,343	-	3,676,343	-	3,676,343
Related parties payable	8,353,294	-	8,353,294	-	8,353,294
Deposits and remittances	505,410,260	-	505,207,361	-	505,207,361
Financial debentures－net	14,530,780	-	14,530,780	-	14,530,780
Other financial liabilities	1,264,386	-	1,264,386	-	1,264,386

Financial instruments measured at amortised cost	December 31, 2016				
	Book value	Fair value Level 1	Level 2	Level 3	Total
Non-derivative financial instruments					
Assets:					
Cash and cash equivalents	$ 14,168,772	-	14,168,772	-	14,168,772
Due from the Central Bank and call loans to banks	102,109,199	-	102,110,353	-	102,110,353
Securities purchased under resell agreements and debt instruments	3,196,000	-	3,236,428	-	3,236,428
Receivables－net	18,603,886	-	18,603,886	-	18,603,886
Discounts and loans－net	267,281,457	-	1,000,000	266,163,546	267,163,546
Other financial assets－net					
Financial assets carried at cost	127,362	-	-	127,362	127,362
Liabilities:					
Deposits from the Central Bank and banks	31,412,055	-	31,415,765	-	31,415,765
Payables	3,673,461	-	3,673,461	-	3,673,461
Related parties payable	10,207,386	-	10,207,386	-	10,207,386
Deposits and remittances	492,606,933	-	492,851,047	-	492,851,047
Financial debentures－net	16,037,802	-	16,037,802	-	16,037,802
Other financial liabilities	1,033,273	-	1,033,273	-	1,033,273

(c) Information on financial risk

The Bank's risk management framework encompasses servicing client interests and fulfilling long term operation goals while keeping overall risk tolerance and compliance to local regulations. This framework serves to diversify or transfer risk in an effective manner, benefiting not only our customers and shareholders but ourselves as well. The Bank encounters credit risk, operational risk, market risk, and liquidity risk both on (interest rate, exchange rate, equity, and commodity) and off the balance sheets in our day-to-day operations.

(Continued)

The Bank has formulated both the risk management policy and operation procedures into structured operation manuals, which have been approved by the Board of Directors. These manuals set out a clear guidance on distinguishing, measuring, monitoring, and managing credit risk, operation risk, market risk, and liquidity risk.

i. Market risk

i) Strategy and procedure of market risk management

The Bank recognizes market risk as the risk of loss resulting from changes in market prices and rates. The Bank is exposed to market risk arising principally from customer-driven transactions. The objective of the Bank's market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements.

ii) Market risk management organization and structure

Market and Liquidity Risk Taiwan followed the regulatory of the Taiwan Financial Supervisory Commission to develop the market risk management policies and procedures, which include the banking books and trading books. The objective of the companies limits are annually reviewed by Market and Liquidity Risk Taiwan and are in line with Group Market Risk Committee guidance. The policies and procedures are presented to the Board for approval.

Market risk limits are proposed by the business within the terms of the agreed policy. Limits are presented to the Risk Committee for approval with its authority delegated by the Board. Limits for derivatives require approval from the Board.

Market and Liquidity Risk Taiwan monitors exposures against these limits on a daily basis. Related market risk management results are reported to the Risk Committee at a minimum on a quarterly basis.

The Bank also receives strong support from SCB regional and group business and market risk management functions based outside of Taiwan.

iii) The scope and characteristics of market risk report and evaluation system

The scope of market risk report covers market exposures in both trading book and banking book. The primary categories of market risk for the Bank are interest rate risk and currency exchange rate risk linked to trading products in financial markets, as the Bank has not held any positions relating to commodities price risk and equity price risk.

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a Value at Risk ("VaR") methodology. VaR, in general, is a quantitative measure of market risk which applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level.

The table below lists the market risk (such as exchange rate or interest rate) of financial instruments of the Bank. Market risk represents potential losses that the Bank may suffer in one day when unfavorable changes occur on the Bank's position at a 97.5% confidence interval under a certain price probability distribution.

	2017			2016		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Foreign exchange VaR	$ 5,579	13,231	1,755	4,860	11,533	1,145
Interest rate VaR	51,660	64,065	38,593	50,710	66,716	26,394
Total VaR	52,028	65,311	38,816	51,038	67,165	26,959

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. Market and Liquidity Risk Taiwan complements the VaR measurement by stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible. Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. Stress testing is applied to trading and banking books, respectively.

iv) Policies for market risk hedge/mitigation, as well as the strategy and procedure for maintaining efficiency in risk hedge/mitigation tools

Market Risk is mitigated by the Bank's standard process as risk is measured, monitored, reported and controlled on a portfolio basis.

Market risk policies, procedures and limits are annually reviewed by Market and Liquidity Risk Taiwan. The policies and procedures cover both trading and non-trading books and are presented to Board for approval.

All products used in risk mitigation must be authorized products in their own right with appropriate Product Programs.

Any product a business uses for risk mitigation must be explicitly referenced in the Market Risk limit for the business.

v) Method used for regulatory capital calculation

Standardized Approach / Delta-Plus for Options.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

vi) Exchange rate risk exposure information

The significant exposure to foreign currency exchange rates are as follows:

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Long position						
USD	$18,691,183	29.848	557,890,443	18,623,487	32.283	601,230,016
CNY	3,810,556	4.578	17,443,602	25,142,477	4.637	116,596,332
EUR	805,809	35.690	28,759,253	1,459,586	33.870	49,436,211
JPY	33,517,246	0.265	8,873,235	90,136,985	0.275	24,818,870
HKD	1,531,397	3.819	5,848,896	4,816,118	4.163	20,049,416
Short position						
USD	18,687,982	29.848	557,794,894	18,575,830	32.283	599,691,496
CNY	3,797,477	4.578	17,383,734	25,133,334	4.637	116,553,935
EUR	806,274	35.690	28,775,841	1,463,353	33.870	49,563,810
JPY	33,543,041	0.265	8,880,064	90,146,108	0.275	24,821,382
HKD	1,526,808	3.819	5,831,369	4,819,926	4.163	20,065,268

i) Interest rate sensitivity information

A. Interest rate sensitivity analysis (NTD)

December 31, 2017

Item	Day 1 to 90 days	Day 91 to 180 days	Day 181 to 1 Year	Over 1 year	Total
Interest rate sensitive assets	$ 394,628,534	18,046,763	40,808,345	52,368,804	505,852,446
Interest rate sensitive liabilities	266,219,926	20,149,415	23,469,517	4,435,721	314,274,579
Interest rate sensitive gap	128,408,608	(2,102,652)	17,338,828	47,933,083	191,577,867
Net worth					43,628,188
Ratio of interest rate sensitive assets to liabilities (%)					160.96
Ratio of interest rate sensitive gap to net worth (%)					439.11

December 31, 2016

Item	Day 1 to 90 days	Day 91 to 180 days	Day 181 to 1 Year	Over 1 year	Total
Interest rate sensitive assets	$ 312,571,391	19,518,441	28,002,153	62,325,097	.422,417,082
Interest rate sensitive liabilities	259,609,575	22,597,629	27,838,894	5,546,417	315,592,515
Interest rate sensitive gap	52,961,816	(3,079,188)	163,259	56,778,680	106,824,567
Net worth					41,597,037
Ratio of interest rate sensitive assets to liabilities (%)					133.85
Ratio of interest rate sensitive gap to net worth (%)					256.81

(Continued)

B. Interest rate sensitivity analysis (USD)

December 31, 2017 Units: in thousands of US Dollars

Item	Day 1 to 90 days	Day 91 to 180 days	Day 181 to 1 Year	Over 1 year	Total
Interest rate sensitive assets	$ 3,510,244	216,598	264,009	376	3,991,227
Interest rate sensitive liabilities	8,153,556	417,954	564,783	202,750	9,339,043
Interest rate sensitive gap	(4,643,312)	(201,356)	(300,774)	(202,374)	(5,347,816)
Net worth					6,883
Ratio of interest rate sensitive assets to liabilities (%)					42.74
Ratio of interest rate sensitive gap to net worth (%)					(77,696.00)

December 31, 2016 Units: in thousands of US Dollars

Item	Day 1 to 90 days	Day 91 to 180 days	Day 181 to 1 Year	Over 1 year	Total
Interest rate sensitive assets	$ 3,885,067	312,698	250,013	-	4,447,778
Interest rate sensitive liabilities	4,822,472	565,155	966,956	205,758	6,560,341
Interest rate sensitive gap	(937,405)	(252,457)	(716,943)	(205,758)	(2,112,563)
Net worth					4,093
Ratio of interest rate sensitive assets to liabilities (%)					67.80
Ratio of interest rate sensitive gap to net worth (%)					(51,614.05)

ii. Operational risk

i) Strategy and procedure of operational risk management

Operational risk is defined as the potential for loss resulting from failure of processes, people, or systems or external events, including legal risk.

Operational risk management approach serves to continually improve the Bank's ability to anticipate all material risks and to increase our ability to demonstrate, with a high degree of confidence, that those material risks are well controlled. According to Operational risk framework, operational risks are managed through risk identification, assessment, control, acceptance, and monitoring approaches.

Responsibility for the management of operational risk rests with businesses and functions. The Framework sets out the respective responsibilities of the 3 Lines of Defense.

ii) Operational risk management organization and structure

Governance over operational risk management is achieved through a defined structure of committees.

The Risk committee is designed to oversee and to challenge the effectiveness of risk management and control. It is also authorised to take certain risk acceptance and control decisions which are outside the authority of individual managers. The Risk committee delegates the authority to Country Operational Risk Committee ("CORC") to determine the Bank's approach to the management of operational risk in accordance with the Operational Risk Management Framework, and has the responsibility to ensure its effective application.

The Country Operational Risk Committee ("CORC") oversees the management of operational risks across the Bank, supported by business and country level committees. The CORC is responsible for ensuring the effectiveness of the Taiwan's Operational Risk Framework and committee structure and that it is implemented consistently.

The Bank also receives strong support from SCB regional and group business and risk management functions.

iii) The scope and characteristics of operational risk report and evaluation system

According to nature and activities of operational risk, the effectiveness of operational risk management is controlled and monitored by different expertise of second line control owners accordingly. The following risk subtype and activities fall within the scope of operational risk, including External Rules and Regulations, Liability, Legal enforceability, Damage or loss of physical assets, Safety & security, Internal fraud or dishonesty, External fraud, Information Security, Processing failure, Model, People management, Vendor management, Data quality management, Business Contingency management, Financial management, and Corporate authorities & structure.

The on-going effectiveness of operational risk controls is ensured through an assurance approach that comprises the responsibility of three lines of defences. It is based on the responsibility that businesses and functions have to adhere to control requirements and to periodically test adherence through control sample testing performed on controls embedded within critical processes.

iv) Policies for operational risk hedge/mitigation, as well as the strategy and procedure for maintaining efficiency in risk hedge/mitigation tools

The operational risk management procedures and processes are built based on Risk Management Framework, and they are integral components of the Operational Risk Management Framework. Operational risks are managed through an end to end process of risk identification, assessment, control, acceptance, and monitoring. This process is performed at all levels across the Bank and is the foundation of the management approach. The identified risks are assessed against operational risk matrices to determine their significance and mitigation actions to reduce the exposure to acceptable levels. Risk mitigation plans are overseen by the appropriate operational risk forum(s) and/or CORC.

v) Method used for regulatory capital calculation

Basic Indicator Approach.

(Continued)

iii. Compliance and legal risk

Compliance and legal risks arise from the possibility that an entity may not be able to comply with regulations, and a contract or legal documentation may likely cause loss due to illegality, incompleteness or unfairness, which results in a regulatory breach. The Compliance Department of the Bank is responsible for the implementation of compliance system of the Bank. The Legal Department of the Bank is responsible for providing advisory services to legal aspects of transaction documents including legality and enforceability of such transaction documents. The two departments together are to make sure that the financial structure and operations of the Bank follows relevant regulatory compliance and legal matters.

iv. Credit risk management

i) Credit risk strategy, goal, policy and procedure

The management of risk lies at the heart of the Bank's business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations.

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank.

A. Strategy and Goal

Through our risk management framework, we manage enterprise-wide risks with the objective of optimizing risk-adjusted returns while remaining within our risk appetite.

Under this framework, we use a set of principles that describe the risk management culture we wish to sustain:

a. Balancing Risk and Return: A sustainable franchise is built by managing the integrate risks and in the interest of all the stakeholders; risks that the Bank is taken are consistent with the approved strategy and within the Bank' s risk tolerances and risk appetite. The Bank manages the risk profile to maintain a low probability of an unexpected loss event that would materially undermine the confidence of the investors;

b. Conduct of Business: The Bank demonstrate the 'Here for Good' through the conduct. The Bank seeks to achieve good outcomes for clients and investors in the markets which the Bank operates, while abiding by the relevant laws and regulations. The Bank treats all colleagues fairly and with respect;

c. Responsibility and Accountability: The Bank takes individual responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority. The Bank makes sure risk taking is transparent, controlled and reported in line with the RMF as well as within risk appetite and risk tolerance boundaries;

(Continued)

d. Anticipation: The Bank seeks to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks; and

e. Competitive Advantage: the Company seeks competitive advantage through efficient and effective risk management and control.

B. Policies and Procedures

The credit policies and procedures are considered and approved by the BOD, which also oversees the delegation of credit approval and loan impairment provisioning authorities. Policies and procedures that are specific to each business are established. These are consistent with the Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics.

ii) Credit risk management organization and structure

Ultimate responsibility for the effective management of risk rests with the Bank Board. The Risk Committee, through its authority delegated by the Board via the Executive Committee, is directly responsible for the management of credit risk.

The management of credit risk includes approving standards (and policies) for the measurement and management of credit risk, approval of delegated approval authority framework and responsibilities to sub-committees and to Risk Officers. The Risk function is independent of the origination, trading and sales functions to ensure that the necessary balance in risk/return decisions is not compromised. The Board and Executive Committee receive regular reports on risk management and are authorized to investigate or seek any information relating to an activity within its term of reference.

Internal Audit is an independent function that reports to the Board. It provides assurance that policies and procedures are being complied with. The findings and recommended corrective actions from the audits are reported to all relevant management and governance bodies.

iii) The scope and characteristics of credit risk report and evaluation system

Risk measurement plays a central role, along with judgment and experience, in informing risk-taking and portfolio management decisions.

Various risk measurement systems are available to the Risk function to enable them to assess and manage the credit portfolio. These include systems to calculate probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") on a transaction, counterparty and portfolio basis.

A number of internal risk management reports are produced on a regular basis, providing information such as; individual counterparty, counterparty group, portfolio exposure, credit grade migration, the status of accounts or portfolios showing signs of weakness or financial deterioration, models performance and updates on credit markets.

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

iv) Policies for credit risk hedge and mitigation, as well as the strategy and procedure for maintaining efficiency in risk hedge and mitigation tools

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigates is carefully assessed in light of potential issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Risk mitigation policies determine the eligibility of collateral types. Collateral types which are eligible for risk mitigation include: cash, residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees and letters of credit. The Bank also enters into collateralized reverse repurchase agreements.

Where guarantees or credit derivatives are used as Credit Risk Mitigation (CRM), the creditworthiness is assessed and established using the credit approval process in addition to that of the obligor or main counterparty.

Collateral is valued in accordance with the CRM, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired loans is maintained at fair value.

Certain credit exposures, e.g. non-recourse receivable service, are mitigated using credit default insurance.

Bilateral and multilateral netting agreements are used to reduce settlement counterparty risk. Settlement exposures are generally netted using bilateral netting documentation in legally approved jurisdictions, Delivery vs. Payment or Payment vs. Payment systems.

v) Method used for regulatory capital calculation

Standardized Approach.

(Continued)

vi) Maximum exposure to credit risk

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance-sheet financial assets is equal to their carrying values. Maximum exposures of financial instruments (without taking collateral or other credit enhancement, and irrevocable maximum exposure) were as follows:

	Maximum exposure to credit risk	
Off-balance-sheet items	**December 31, 2017**	**December 31, 2016**
Other guarantees	$ 3,271,993	2,712,222
Unused amount of irrevocable loan commitments	527,051	697,346
Unused amount of irrevocable letters of credit	1,796,637	886,991
Total	$ 5,595,681	4,296,559

Due to the Bank's use of a more strict selection process for credit risk followed by subsequent periodic review, the Bank's management assessed a more sustainable control to minimize the Bank's off-balance-sheet items for credit risk.

vii) Concentrations of credit risk

Financial instruments counterparties are significantly concentrated onto one person or multiple persons. Concentration of credit risk exists if a number of counterparties are engaged in similar activities or activities in the same region, or have similar economic characteristics that would cause their abilities to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Bank's concentration of credit risk are derived from assets, liabilities or off-balance sheets items, compliance or enforcement by transactions (regardless of the product or service), or arises from a combination of categories including credit, due from banks and call loans to banks, portfolio investments, and other receivables and derivatives. The Bank currently has no concentration of transaction to a single counterparty nor a single transaction with a counterparty for the Bank's discount and loans, and non-performing loans that are significant. The following table illustrates the diversification of the loan portfolio among industry sectors, geographical regions and collateral types of the Bank:

A. By industry

	December 31, 2017	**December 31, 2016**
Individual	$ 177,887,463	177,217,124
Manufacturing	44,258,875	42,401,520
Transportation and warehousing	17,322,363	23,727,467
Commercial	9,645,771	12,164,211
Government	3,500,000	1,000,000
Financial industry	9,219,616	9,679,380
Other	5,674,583	6,247,258
Total	$ 267,508,671	272,436,960

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B. By area

	December 31, 2017	December 31, 2016
Domestic	$ 237,964,615	230,261,980
Overseas	29,544,056	42,174,980
Total	$ 267,508,671	272,436,960

C. By collateral

	December 31, 2017	December 31, 2016
Unsecured	$ 82,826,631	79,934,290
Secured		
—Real estate	157,477,009	155,144,402
—Movable asset	15,494,988	20,784,795
—Debt instrument	8,857,182	13,664,512
—Other	2,852,861	2,908,961
Total	$ 267,508,671	272,436,960

viii) Credit quality and impairment analysis on financial asset

Some of the financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, derivative financial assets for hedging and securities purchased under resell agreements and debt instruments are excluded from this analysis since the counterparty is normally with good credit quality and can be considered as low credit risk. Below tables provide the credit quality analysis for other financial assets.

A. Credit quality analysis

	December 31, 2017					
	Neither past due nor impaired	Past due but not impaired	Impaired	Allowance for bad debts: Individually impaired	Allowance for bad debts: Collectively impaired	Total
Receivables						
Credit cards accounts receivable	$ 3,097,056	72,131	618,123	193,098	23,364	3,570,848
Accounts receivable factoring	11,880,235	-	-	-	118,802	11,761,433
Discounts and loans						
Consumer banking	171,815,568	2,696,770	3,815,580	902,733	2,525,237	174,899,948
Wholesale banking	87,394,517	16,451	1,769,785	875,146	405,061	87,900,546
Available-for-sale financial assets	185,135,013	-	-	-	-	185,135,013
Other financial assets						
Overdue receivable	-	-	50,272	50,272	-	-
	$ 459,322,389	2,785,352	6,253,760	2,021,249	3,072,464	463,267,788

(Continued)

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	December 31, 2016					
	Neither past due nor impaired	Past due but not impaired	Impaired	Allowance for bad debts: Individually impaired	Allowance for bad debts: Collectively impaired	Total
Receivables						
Credit cards accounts receivable	$ 3,555,627	86,875	688,395	220,913	23,523	4,086,461
Accounts receivable factoring	9,965,494	-	-	-	-	9,965,494
Financial derivatives credit default receivables	-	-	317,736	190,972	-	126,764
Discounts and loans						
Consumer banking	170,747,573	2,820,459	4,352,781	998,101	2,565,327	174,357,385
Wholesale banking	92,236,678	67,988	2,211,481	1,114,071	522,742	92,879,334
Available-for-sale financial assets	157,879,248	-	-	-	-	157,879,248
Other financial assets overdue receivable	-	-	326,181	326,181	-	-
	$ 434,384,620	2,975,322	7,896,574	2,850,238	3,111,592	439,294,686

B. Credit quality analysis on neither past due nor impaired loans and advances. The credit quality categorization based on the bank's internal risk rating which is defined in internal master scale.

	December 31, 2017			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 1,141,817	1,936,598	18,641	3,097,056
Accounts receivable factoring	4,986,510	181,294	6,712,431	11,880,235
Discounts and loans				
Consumer banking	145,372,325	25,751,419	691,824	171,815,568
Wholesale banking	25,282,655	34,081,588	28,030,274	87,394,517
Total	$ 176,783,307	61,950,899	35,453,170	274,187,376

	December 31, 2016			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 1,287,771	2,224,565	43,291	3,555,627
Accounts receivable factoring	4,299,439	227,822	5,438,233	9,965,494
Discounts and loans				
Consumer banking	145,926,708	23,989,607	831,258	170,747,573
Wholesale banking	21,391,148	39,420,986	31,424,544	92,236,678
Total	$ 172,905,066	65,862,980	37,737,326	276,505,372

(Continued)

C. Credit quality analysis on past due but not impaired loans and receivables. The credit quality categorization based on the Bank's internal risk rating which is defined in internal master scale.

	December 31, 2017			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 2	57,508	14,621	72,131
Discounts and loans				
Consumer banking	144	1,394,605	1,302,021	2,696,770
Wholesale banking	-	14,985	1,466	16,451
Total	$ 146	1,467,098	1,318,108	2,785,352

	December 31, 2016			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 17	69,804	17,054	86,875
Discounts and loans				
Consumer banking	1,941	1,352,297	1,466,221	2,820,459
Wholesale banking	-	65,001	2,987	67,988
Total	$ 1,958	1,487,102	1,486,262	2,975,322

D. Credit quality analysis on neither past due nor impaired available-for-sale financial assets. The credit quality categorization based on the issuer's internal risk rating which is defined in internal master scale.

	December 31, 2017			
	Investment grade	Sub-investment grade	High risk grade	Total
Available-for-sale financial assets				
Debt instruments	$ 185,135,013	-	-	185,135,013

	December 31, 2016			
	Investment grade	Sub-investment grade	High risk grade	Total
Available-for-sale financial assets				
Debt instruments	$ 157,879,248	-	-	157,879,248

(Continued)

ix) Aging analysis on past due but not impaired financial assets

Customer in the early stage of delinquency due to some temporary delay or other reasons can result in past due. According to the internal credit risk assets impairment evaluation guideline, a less than 150-day consumer banking past due loan or less than 90-day wholesale banking past due loan is typically not to be treated as individually impairment (but treated as collectively impairment) unless there is negotiation agreements or other objective evidence showing the potential loss.

	December 31, 2017				
	Up to 1 month	**1-2 months**	**2-3 months**	**Over 3 months**	**Total**
Receivables					
Credit cards accounts receivable	$ 35,952	12,155	9,725	14,299	72,131
Discounts and loans					
Consumer banking	1,841,292	580,273	151,067	124,138	2,696,770
Wholesale banking	10,119	3,294	2,609	429	16,451
Total	$ 1,887,363	595,722	163,401	138,866	2,785,352

	December 31, 2016				
	Up to 1 month	**1-2 months**	**2-3 months**	**Over 3 months**	**Total**
Receivables					
Credit cards accounts receivable	$ 42,660	18,113	10,246	15,856	86,875
Discounts and loans					
Consumer banking	1,755,629	694,843	222,066	147,921	2,820,459
Wholesale banking	26,033	7,538	34,417	-	67,988
Total	$ 1,824,322	720,494	266,729	163,777	2,975,322

x) Asset quality of non-performing loans and overdue receivables

A. Asset quality of the Bank

Units: in thousands of New Taiwan Dollars, %

Product (Period)			December 31, 2017				
			Non-performing loan	**Loan balances**	**NPL ratio**	**Allowance for bad debts**	**Coverage ratio**
Wholesale Banking	Secured		35,054	25,036,215	0.14 %	262,657	749.29 %
	Unsecured		497,711	64,144,538	0.78 %	1,017,550	204.45 %
Consumer Banking	Mortgage		217,072	130,191,100	0.17 %	2,323,977	1,070.60 %
	Personal loan		157,388	24,846,390	0.63 %	1,019,835	647.98 %
	Others	Secured	73,292	21,291,429	0.34 %	81,568	111.29 %
		Unsecured	54	1,998,999	- %	2,590	4,796.30 %
Total			980,571	267,508,671	0.37 %	4,708,177	480.15 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			15,463	3,787,310	0.41 %	216,462	1,399.87 %
Factoring loan receivable without recourse			-	11,880,235	- %	118,802	- %

(Continued)

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Product (Period)			Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio
			December 31, 2016				
Wholesale Banking	Secured		54,603	36,902,683	0.15 %	74,494	136.43 %
	Unsecured		1,054,475	57,613,464	1.83 %	1,562,319	148.16 %
Consumer Banking	Mortgage		302,999	128,591,031	0.24 %	2,273,686	750.39 %
	Personal loan		194,795	27,640,856	0.70 %	1,230,052	631.46 %
	Others	Secured	102,499	19,759,834	0.52 %	56,221	54.85 %
		Unsecured	203	1,929,092	0.01 %	3,469	1,708.87 %
Total			1,709,574	272,436,960	0.63 %	5,200,241	304.18 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			17,116	4,330,897	0.40 %	244,436	1,428.11 %
Factoring loan receivable without recourse			-	9,965,494	- %	-	- %

The information below shows that may be exempted from reporting as overdue loans and overdue receivables, respectively.

Units: in thousands of New Taiwan Dollars

	December 31, 2017		December 31, 2016	
	Loans that may be exempted from reporting as overdue loan	Receivables that may be exempted from reporting as overdue receivables	Loans that may be exempted from reporting as overdue loan	Receivables that may be exempted from reporting as overdue receivables
The amount under inter-bank debt relief program without default by debtors	$ 4,466	16,150	5,919	21,358
The amount under debt discharge program and rehabilitation program without default by debtors	280,901	42,738	337,599	49,012
	$ 285,367	58,888	343,518	70,370

(Continued)

B. Concentration of corporate credit risk for the bank

Units: in thousands of New Taiwan Dollars, %

December 31, 2017				
Rank	**Industry classification of group enterprise**		**Outstanding credit**	**% of net assets**
1	A Company	Other financial service activities not elsewhere classified	5,372,601	12.26 %
2	B Group	Air transport	4,561,277	10.40 %
3	C Group	Manufacture of other electronic parts and components not elsewhere classified	4,329,451	9.88 %
4	D Group	Air transport	3,102,934	7.08 %
5	E Group	Ocean transportation	3,043,884	6.94 %
6	F Company	Investment advisory services	2,941,977	6.71 %
7	G Group	Manufacture of footwear	2,557,243	5.83 %
8	H Group	Manufacture of other electronic parts and components not elsewhere classified	2,548,478	5.81 %
9	I Group	Ocean Transportation Manufacture of other	2,303,448	5.25 %
10	J Company	Chemical products not elsewhere classified	1,800,000	4.11 %

December 31, 2016				
Rank	**Industry classification of group enterprise**		**Outstanding credit**	**% of net assets**
1	A Company	Other financial service activities not elsewhere classified	5,811,017	13.93 %
2	B Group	Air transport	5,618,753	13.46 %
3	N Group	Weaving of other textiles	5,601,351	13.42 %
4	K Company	Manufacture of other non-metallic mineral products not elsewhere classified	3,874,011	9.28 %
5	C Group	Manufacture of other electronic parts and components not elsewhere classified	3,797,787	9.10 %
6	D Group	Air transport	3,785,282	9.07 %
7	E Group	Ocean transportation	3,496,553	8.38 %
8	L Group	Manufacture of integrated circuits	3,013,235	7.22 %
9	I Group	Ocean transportation	2,593,763	6.22 %
10	M Group	Air transport	2,131,777	5.11 %

Note: the above listed group enterprises refer to a group of corporate entities defined by the Sixth Article of the Supplementary Provisions to the Taiwan Stock exchange Corporation Criteria for Review of Securities Listings.

(Continued)

v. Liquidity risk management mechanism

i) Definition and sources of liquidity risk

Liquidity risk is the potential that the Bank either does not have sufficient liquid financial resources available to meet all its obligations as they fall due, or can only access these financial resources at excessive cost.

ii) Management procedure of liquidity risk

The Liquidity Risk Framework governs liquidity risk and is managed by Asset and Liability Committee. The Bank maintains a liquid portfolio of marketable securities as a liquidity buffer as required by local regulation. In total, it maintains a liquidity buffer of $218 billion, which is equivalent to 33.63% of the Bank's total assets. The level of the Bank's aggregate liquid reserves is in accordance with local regulatory minimum liquidity requirements.

The asset side of the balance sheet is of equal importance to the Bank's balance sheet as the liability side. The Bank's balance sheet is fluid as evidenced by the majority of wholesale banking lending and fixed income assets are contractually less than one year in tenor.

The Bank is of the view that capital is not a mitigant for liquidity risk; liquid reserves and a short tenured book are the appropriate mitigant. Accordingly, the Bank does not hold capital in respect of liquidity risk.

iii) Financial assets held for liquidity risk management

The Bank holds cash and high quality liquid interest earning assets to support the repay liability and the potential urgency for cash demand emerges from market environment. The assets held for liquidity risk management include cash and cash equivalent, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, discounts and loans, and available-for-sale financial assets.

iv) Maturity analysis of non-derivatives liabilities

The table below shows the analysis of non-derivatives liabilities based on time remaining until the contractual maturity date.

	December 31, 2017				
	Within 3 months	3 months~ 1 year	1~5 years	Over 5 years	Total
Deposits from the Central Bank and banks	$ 58,580,313	512,214	-	-	59,092,527
Payables	3,676,343	-	-	-	3,676,343
Related parties payable	8,353,294	-	-	-	8,353,294
Deposits and remittances	414,279,670	86,667,158	4,463,432	-	505,410,260
Financial debentures	3,200	6,558,023	2,000,000	5,969,557	14,530,780
Other financial liabilities	1,182,304	-	82,082	-	1,264,386
Total	$ 486,075,124	93,737,395	6,545,514	5,969,557	592,327,590

	December 31, 2016				
	Within 3 months	3 months~ 1 year	1~5 years	Over 5 years	Total
Deposits from the Central Bank and banks	$ 30,575,849	836,206	-	-	31,412,055
Payables	3,673,461	-	-	-	3,673,461
Related parties payable	10,207,386	-	-	-	10,207,386
Deposits and remittances	405,262,689	81,589,925	5,754,319	-	492,606,933
Financial debentures	31,116	1,000,000	8,550,000	6,456,686	16,037,802
Other financial liabilities	763,801	95,531	173,941	-	1,033,273
Total	$ 450,514,302	83,521,662	14,478,260	6,456,686	554,970,910

v) Maturity analysis of derivative financial liabilities

The Bank evaluates the maturity of the derivative financial liabilities listed on the balance sheets to analyze their basic elements. The amount disclosed is based on contractual cash flows and may be different from those included in the balance sheets. The maturity analysis of net settled derivative liabilities is as follows:

A. Maturity analysis of net settled derivatives

	December 31, 2017					
	0~30 days	31~90 days	91~180 days	181 days-1 year	Over 1 year	Total
Derivative financial instruments at fair value through profit or loss						
— Foreign exchange derivative instruments	$ 312,226	70,197	216,670	46,713	12	645,818
— Interest rate derivative instruments	2,237	20,175	26,385	101,820	1,574,186	1,724,803
Derivative financial instruments for hedging						
— Interest rate derivative instruments	-	349	-	-	1,270	1,619
	$ 314,463	90,721	243,055	148,533	1,575,468	2,372,240

	December 31, 2016					
	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Derivative financial instruments at fair value through profit or loss						
— Foreign exchange derivative instruments	$ 327,986	115,370	1,334,460	1,513,606	3,960	3,295,382
— Interest rate derivative instruments	4,981	13,680	49,282	44,221	2,349,131	2,461,295
Derivative financial instruments for hedging						
— Interest rate derivative instruments	-	-	-	3,375	11,585	14,960
	$ 332,967	129,050	1,383,742	1,561,202	2,364,676	5,771,637

B. Maturity analysis of gross settled derivatives

	December 31, 2017					
	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Derivative financial instruments at fair value through profit or loss						
—Foreign exchange derivative instruments						
—Cash outflow	$ 202,310,421	196,721,970	111,032,584	47,749,363	969,916	558,784,254
—Cash inflow	200,633,954	195,843,615	110,969,432	47,891,081	967,142	556,305,224
Derivative financial instruments for hedging						
—Foreign exchange derivative instruments						
—Cash outflow	-	-	-	3,438,539	-	3,438,539
Net cash flow	$ (1,676,467)	(878,355)	(63,152)	(3,296,821)	(2,774)	(5,917,569)

	December 31, 2016					
	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Derivative financial instruments at fair value through profit or loss						
—Foreign exchange derivative instruments						
—Cash outflow	$ 220,207,652	165,947,729	80,787,702	35,193,197	-	502,136,280
—Cash inflow	216,692,656	163,068,641	79,403,317	34,335,889	-	493,500,503
Derivative financial instruments for hedging						
—Foreign exchange derivative instruments						
—Cash outflow	-	-	1,306,000	-	-	1,306,000
Net cash flow	$ (3,514,996)	(2,879,088)	(2,690,385)	(857,308)	-	(9,941,777)

vi) Maturity analysis of off-balance-sheet items

Table below shows the maturity analysis of off-balance-sheet items for the Bank. The amount of the guarantee and committed credit lines will be allocated to the earliest period when such obligation can be exercised anytime by clients. The amount disclosed is based on contractual cash flow and may be different from that included in the balance sheets.

	December 31, 2017				
	0~30 days	31~90 Days	91 days~ 1 year	Over 1 year	Total
Other guarantees	$ 407,106	1,158,723	1,291,569	414,595	3,271,993
Unused amount of irrevocable loan commitments	118,119	236,237	43,216	129,479	527,051
Unused amount of irrevocable letters of credit	552,558	1,199,116	44,963	-	1,796,637
	$ 1,077,783	2,594,076	1,379,748	544,074	5,595,681

	December 31, 2016				
	0~30 days	31~90 Days	91 days~ 1 year	Over 1 year	Total
Other guarantees	$ 189,839	712,968	1,060,898	748,517	2,712,222
Unused amount of irrevocable loan commitments	27,075	54,150	9,906	606,215	697,346
Unused amount of irrevocable letters of credit	307,283	531,188	48,520	-	886,991
	$ 524,197	1,298,306	1,119,324	1,354,732	4,296,559

(Continued)

vii) Structure Analysis of Maturity Date New Taiwan Dollars

December 31, 2017

		Remaining period to expiration					
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year
Capital provided	$ 837,366,729	138,360,109	107,913,408	172,566,579	112,648,324	95,636,932	210,241,377
Capital used	921,466,623	83,827,113	112,360,386	226,571,544	146,958,873	80,982,897	270,765,810
Gap	(84,099,894)	54,532,996	(4,446,978)	(54,004,965)	(34,310,549)	14,654,035	(60,524,433)

December 31, 2016

		Remaining period to expiration					
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year
Capital provided	$ 742,860,006	116,202,607	90,334,513	143,107,819	95,938,190	76,072,849	221,204,028
Capital used	849,647,304	94,857,966	104,252,646	197,553,560	119,183,109	56,871,404	276,928,619
Gap	(106,787,298)	21,344,641	(13,918,133)	(54,445,741)	(23,244,919)	19,201,445	(55,724,591)

viii) Structure Analysis of Maturity Date US Dollars

December 31, 2017

Units: in thousands of US Dollars

		Remaining period to expiration				
	Total	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year
Capital provided	$ 23,562,097	9,265,128	7,150,820	4,419,703	2,024,576	701,870
Capital used	24,415,026	9,540,294	7,642,905	3,625,569	2,032,605	1,573,653
Gap	(852,929)	(275,166)	(492,085)	794,134	(8,029)	(871,783)

December 31, 2016

Units: in thousands of US Dollars

		Remaining period to expiration				
	Total	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year
Capital provided	$ 22,276,591	9,882,811	6,808,901	3,513,848	1,146,438	924,593
Capital used	23,020,460	9,494,595	6,588,754	3,204,384	2,138,314	1,594,413
Gap	(743,869)	388,216	220,147	309,464	(991,876)	(669,820)

(d) The offsetting information for financial assets and financial liabilities

The Bank has signed total net executable settlement contracts and similar agreements. When both parties choose to conduct the settlement using the net amount, it is acceptable to use the net amount after offsetting the financial assets and financial liabilities. If not, the total value is used in the settlement. If one party defaults, the other party has the right to select the net amount during the settlement.

The table below shows the relevant offsetting information for financial assets and financial liabilities:

December 31, 2017						
Financial assets under net executable settlement contracts or similar agreements						
				Relevant amounts not offset on balance sheet (d)		
	Total financial assets recognized (a)	Offset total financial liabilities recognized in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial assets	$ 6,956,400	-	6,956,400	3,071,079	1,149,472	2,735,849
Securities purchased under resell agreements	3,356,185	-	3,356,185	-	3,356,185	-
Total	$ 10,312,585	-	10,312,585	3,071,079	4,505,657	2,735,849

December 31, 2017						
Financial liabilities under net executable settlement contracts or similar agreements						
				Relevant amounts not offset on balance sheet (d)		
	Total financial liabilities recognized (a)	Offset total financial assets recognized in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 7,428,672	-	7,428,672	3,071,079	708,533	3,649,060

December 31, 2016						
Financial assets under net executable settlement contracts or similar agreements						
				Relevant amounts not offset on balance sheet (d)		
	Total financial assets recognized (a)	Offset total financial liabilities recognized in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial assets	$ 18,600,254	-	18,600,254	8,860,642	870,489	8,869,123
Securities purchased under resell agreements	3,196,000	-	3,196,000	-	3,196,000	-
Total	$ 21,796,254	-	21,796,254	8,860,642	4,066,489	8,869,123

December 31, 2016						
Financial liabilities under net executable settlement contracts or similar agreements						
				Relevant amounts not offset on balance sheet (d)		
	Total financial liabilities recognized (a)	Offset total financial assets recognized in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 14,923,024	-	14,923,024	8,860,642	533,330	5,529,052

(Note) Includes net amount settlements and financial guarantees of non-cash items.

(e) Capital management

i. Summary

The goal of the Bank's capital management is shown below:

i) Meeting the regulatory capital requirement and the minimum capital adequacy ratio is the Bank's basic goal for capital management. The Bank calculates qualified capital and regulatory capital requirement in accordance with rules issued by the regulator.

(Continued)

ii) To ensure keeping adequate capital to support all the risks surrounding its business, the Bank should take the risk combination and the characters of risk into consideration when measuring the Bank's required capital. Meanwhile, the Bank should maximize resource allocation through risk management by means of capital allocation.

ii. Capital management procedure

The Bank maintains the capital adequacy ratio in line with the requirement made by the regulator, and report to the regulator on a quarterly basis. The Bank's capital is managed by the Asset and Liability Committee. The Bank's capital is divided into Tier 1 Capital and Tier 2 Capital following the "Regulations Governing the Capital Adequacy and Capital Category of Banks":

i) Tier 1 Capital: The aggregate amount of Common Equity and additional Tier 1 Capital.

A. Common equity Tier 1 capital: Consists of the common equity deducting intangible assets, the deferred tax assets due to losses from previous years, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and the statutory adjustment items calculated in accordance with other rules for calculation methods.

The common equity Tier 1 capital shall mean the sum of the following items:

a. Ordinary share and additional paid-in capital in excess of par-ordinary share

b. Capital collected in advance

c. Capital surplus

d. Legal reserves

e. Special reserves

f. Accumulated profit or loss

g. Non-controlling interests

h. Other items in stockholders' equity

B. Additional Tier 1 capital: Consists of the aggregate amount of non-cumulative perpetual preferred stock and its capital stock premium, non-cumulative and non-perpetual subordinated debts, etc.

ii) Tier 2 capital: Consists of the aggregate amount of cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts and non-perpetual preferred stock and its capital stock premium, etc.

(Continued)

iii. Capital adequacy

Item		Period-end	December 31, 2017	December 31, 2016
Self-owned capital	Common stock capital		39,686,736	37,530,261
	Other Tier 1 capital		-	-
	Tier 2 capital		9,433,516	10,119,637
	Total self-owned capital		49,120,252	47,649,898
Risk-weighted assets	Credit risk	Standard approach (SA)	261,584,019	273,014,017
		Internal ratings-based approach (IRB)	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach (BIA)	24,233,455	25,574,978
		Standardized approach(SA)/alternative approach	-	-
		Advanced measurement approach (AMA)	-	-
	Market risk	Standardized approach (SA)	17,487,767	16,826,701
		Internal model-based approach (IMA)	-	-
	Total risk-weighted assets		303,305,241	315,415,696
Total risk-based capital			16.19 %	15.11 %
Ratio of common stock to total risk-based assets			13.08 %	11.90 %
Ratio of Tier 1 capital to risk-based assets			13.08 %	11.90 %
Leverage ratio			5.90 %	5.41 %

Note 1: Capital Adequacy was prepared in compliance with Regulations Governing the Capital Adequacy and Capital Category of Banks.

Note 2: The operational risk in the above table was calculated and prepared based on Appendix 1 Gross profit in Part 4 Operational Risk of "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets". Upon examining the composition of gross profit in terms of the above mentioned calculation methods, the Company made adjustments to the definition of gains and losses on property transactions and outsourcing cost, and calculated operational risk according to the new definition starting from 2017.

(7) Related-Party Transactions

1) Name and relationship of related parties

Name	Relationship
Standard Chartered Bank ("SCB")	The ultimate controlling party
Standard Chartered Bank Taipei Branch ("SCB Taipei")	Affiliate
Standard Chartered Bank New York ("SCB New York")	Affiliate
Standard Chartered Bank Japan ("SCB Japan")	Affiliate
Standard Chartered Bank Singapore ("SCB Singapore")	Affiliate
Standard Chartered Bank Germany ("SCB Germany")	Affiliate
Standard Chartered Global Business Services Private Limited (Note 1)	Affiliate
Standard Chartered Global Business Services Sdn Bhd (Note 2)	Affiliate
Standard Chartered Bank Hong Kong Limited ("SCB Hong Kong")	Affiliate
Standard Chartered Bank China Limited ("SCB China")	Affiliate
Standard Chartered Bank Thailand Limited ("SCB Thailand")	Affiliate
Standard Chartered Bank Korea Limited ("SCB Korea")	Affiliate
Standard Chartered Bank Vietnam Limited ("SCB Vietnam")	Affiliate
Standard Chartered Bank Philippines Limited ("SCB Philippines")	Affiliate
Standard Chartered Bank South Africa Limited ("SCB South Africa")	Affiliate
Standard Chartered Bank Macau Limited ("SCB Macau")	Affiliate
Standard Chartered Bank Indonesia ("SCB Indonesia")	Affiliate
Standard Chartered Bank Dubai ("SCB Dubai")	Affiliate
Standard Chartered Bank Mauritius ("SCB Mauritius")	Affiliate
Standard Chartered Bank France ("SCB France")	Affiliate
Standard Chartered Bank Australia ("SCB Australia")	Affiliate
Standard Chartered Bank India ("SCB India")	Affiliate
Standard Chartered Bank UAE ("SCB UAE")	Affiliate
Directors, Supervisors, President and Vice Presidents	The senior management of the Bank

(Continued)

Name	Relationship
Others	According to IAS No.24, "Related Party Disclosure", related party should include: 1) Members of key management personnel or directors. 2) Spouse, and first-or second-degree blood relatives of senior management, members of key management personnel or directors. 3) Senior management, members of key management personnel or directors and entities with people listed above as their directors, supervisors or presidents.

Note 1: Scope International Private Limited has renamed on November 30, 2016.

Note 2: Scope International (M) Sdn Bhd has renamed on October 06, 2016.

2) Significant transactions with related parties

(a) Deposits

December 31, 2017			
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 438,144	0.09	0.00~6.80

December 31, 2016			
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 669,166	0.14	0.00~6.70

The interest rates applied to the related parties are based on the board rate for all significant impacts, and the deposit conditions are the same as those for general deposits. The interest rate on employee savings accounts was calculated based on the interest rate of time savings deposits with three year term offered to the general public plus 3%.

For the years ended December 31, 2017 and 2016, interest expenses on the above deposits were $2,564 thousand and $3,515 thousand, respectively. As of December 31, 2017 and 2016, the interest payables on the above transaction were $239 thousand and $161 thousand, respectively.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

(b) Loans

2017

Type of loan	Maximum balance during the period	Number of accounts or name of related party	Ending balance	Repayment: On-schedule	Repayment: Overdue	Collateral	Difference between terms and conditions offered to the accounts and to the general public
Employee consumer loans	8,703	15	5,746	5,746	-	Unsecured lending	None
Mortgage	194,339	19	146,105	146,105	-	House	None
Other	4,363	Other individuals	3,765	3,765	-	Overdraft on the comprehensive deposits	None

2016

Type of loan	Maximum balance during the period	Number of accounts or name of related party	Ending balance	Repayment: On-schedule	Repayment: Overdue	Collateral	Difference between terms and conditions offered to the accounts and to the general public
Employee consumer loans	9,165	14	5,557	5,557	-	Unsecured lending	None
Mortgage	167,911	23	144,371	144,371	-	House	None
Other	4,947	Other individuals	4,363	4,363	-	Overdraft on the comprehensive deposits	None

For the years ended December 31, 2017 and 2016, interest income on the above loans were $2,110 thousand and $2,189 thousand, respectively. As of December 31, 2017 and 2016, the interest receivables on the above transaction were $112 thousand and $126 thousand, respectively.

(c) Foreign exchange and derivative transactions

December 31, 2017

Name	Contracts	Contracts duration period	Notional	Gain (loss) on valuation	Balance sheet: Account	Balance sheet: Balance
SCB	Interest rate swap	2018.1.26~ 2027.12.7	$ 203,171,847	78,908	Financial assets at fair value through profit or loss	214,926
					Financial liabilities at fair value through profit or loss	(240,275)
	Spot/forward/swap	2018.1.2~ 2020.1.14	36,887,397	1,381,499	Financial assets at fair value through profit or loss	804,879
					Financial liabilities at fair value through profit or loss	(296,943)
	Foreign exchange option	2018.1.2~ 2018.12.28	115,253,516	1,869,975	Financial assets at fair value through profit or loss	13,662
					Financial liabilities at fair value through profit or loss	(548,037)
	Commodity swap	2018.1.3~ 2018.6.4	2,122,265	(118,764)	Financial assets at fair value through profit or loss	10,970
					Financial liabilities at fair value through profit or loss	(115,655)
	Cross currency swap	2018.1.5~ 2018.1.29	5,969,560	(1,077,908)	Financial liabilities at fair value through profit or loss	(14,246)
	Interest rate swap (Hedge)	2018.2.13~ 2018.2.20	507,413	14,611	Derivative financial liabilities for hedging	(349)
SCB Singapore	Spot/forward/swap	2018.1.2~ 2018.12.21	40,076,907	(1,623,498)	Financial assets at fair value through profit or loss	95,388
					Financial liabilities at fair value through profit or loss	(271,862)
SCB Hong Kong	Spot/forward/swap	2018.1.2~ 2018.12.21	19,971,299	149,198	Financial assets at fair value through profit or loss	215,651
					Financial liabilities at fair value through profit or loss	(171,087)

(Continued)

		December 31, 2016				
		Contracts		Gain (loss) on	Balance sheet	
Name	Contracts	duration period	Notional	valuation	Account	Balance
SCB	Interest rate swap	2017.1.25~ 2026.10.26	$ 199,978,124	(106,100)	Financial assets at fair value through profit or loss	530,883
					Financial liabilities at fair value through profit or loss	(635,140)
	Spot/forward/swap	2017.1.3~ 2017.12.15	108,778,910	196,025	Financial assets at fair value through profit or loss	1,090,473
					Financial liabilities at fair value through profit or loss	(1,964,036)
	Foreign exchange option	2017.1.2~ 2018.5.15	245,788,922	5,673,721	Financial assets at fair value through profit or loss	488,431
					Financial liabilities at fair value through profit or loss	(2,892,781)
	Commodity swap	2017.1.4~ 2017.8.2	1,424,006	9,946	Financial assets at fair value through profit or loss	37,559
					Financial liabilities at fair value through profit or loss	(23,480)
	Cross currency swap	2017.1.5~ 2017.1.20	17,755,870	1,094,145	Financial assets at fair value through profit or loss	1,063,662
	Interest rate swap (Hedge)	2017.8.7~ 2018.11.29	5,220,226	17,492	Derivative financial liabilities for hedging	(14,960)
SCB Singapore	Spot/forward/swap	2017.1.3~ 2017.11.6	81,624,339	1,445,291	Financial assets at fair value through profit or loss	2,119,345
					Financial liabilities at fair value through profit or loss	(672,321)
SCB Hong Kong	Spot/forward/swap	2017.1.3~ 2017.12.29	30,813,228	(103,256)	Financial assets at fair value through profit or loss	15,227
					Financial liabilities at fair value through profit or loss	(119,861)
SCB New York	Spot/forward/swap	2017.4.6~ 2017.8.25	2,259,838	(77,404)	Financial assets at fair value through profit or loss	33,753
					Financial liabilities at fair value through profit or loss	(111,157)

As of December 31, 2017 and 2016, the premium receivables resulting from the above option contracts were $10,707 thousand and $4,389 thousand, respectively, recorded under receivables — net; and the premium payables resulting from the above option contracts were $3,468 thousand and $16,571 thousand, respectively, recorded under related parties payable.

(d) Deposits with banks—affiliates

		2017		
		Balance	Interest rate %	Interest income
SCB China	$	3,456,593	2.00~5.00	33,171
SCB New York		2,379,694	0.58	7,731
SCB Germany		1,473,913	-0.50	(3)
SCB Japan		1,287,455	-	-
SCB		822,476	-	-
SCB Hong Kong		707,140	-	2
SCB Singapore		66,730	-	-
SCB Thailand		885	-	-
SCB Philippines		169	-	-
	$	10,195,055		40,901

		2016		
		Balance	Interest rate %	Interest income
SCB Japan	$	3,019,529	-	-
SCB New York		2,775,921	0.33	3,452
SCB		845,908	-	-
SCB Germany		722,757	-1.50	-
SCB Hong Kong		203,578	-	-
SCB Singapore		125,781	-	-
SCB China		34,873	0.48	1,415
SCB Thailand		1,138	-	-
SCB Philippines		184	-	-
	$	7,729,669		4,867

As of December 31, 2017, interest receivable resulting from the above deposits with banks to affiliates was $3,973 thousand. For the years ended December 31, 2017 and 2016, the service charge from the above deposits were $26,288 thousand and $27,294 thousand, respectively, recorded under net service fee income.

(e) Call loans to banks—affiliates

		2017		
		Balance	Interest rate %	Interest income
SCB Taipei	$	27,589,121	-0.27~4.00	451,434
SCB		23,281,273	0.75~1.50	105,846
SCB Japan		2,647,364	-0.11~1.50	9,022
SCB Thailand		1,492,389	2.40~3.60	1,373
SCB Korea		-	1.53~1.96	23,237
SCB Hong Kong		-	0.40~1.45	3,262
SCB New York		-	1.25	1,438
SCB Singapore		-	-0.26~14.00	456
SCB Germany		-	-0.50~-0.45	(5,529)
SCB China		-	-0.30	(1)
	$	55,010,147		590,538

	2016		
	Balance	Interest rate %	Interest income
SCB Taipei	$ 35,211,021	-0.28~4.80	334,343
SCB	16,948,800	0.35~0.85	42,805
SCB Germany	6,774,006	-0.50~-0.45	(5,488)
SCB Korea	1,614,171	0.55~1.53	3,989
SCB Singapore	1,376,731	-0.26~-0.10	(11,430)
SCB New York	-	1.40~1.45	17,648
SCB Hong Kong	-	0.01~1.20	3,363
SCB Japan	-	-0.10~0.78	1,649
SCB China	-	0.55~1.80	1,236
SCB Dubai	-	0.35~0.85	344
SCB Vietnam	-	0.50	13
	$ 61,924,729		388,472

As of December 31, 2017 and 2016, the interest receivables resulting from the above call loans to banks to affiliates were $144,004 thousand and $8,389 thousand, respectively, recorded under receivables—net.

(f) Deposits from banks—affiliates

	2017		
	Balance	Interest rate %	Interest expense
SCB Taipei	$ 1,283,826	0.01	108

	2016		
	Balance	Interest rate %	Interest expense
SCB Taipei	$ 993,555	0.01	115

As of December 31, 2017 and 2016, the interest payables resulting from the above deposits from banks to affiliates were $4 thousand and $2 thousand, respectively, recorded under related parties payable.

(g) Overdrafts on banks—affiliates

	2017		
	Balance	Interest rate %	Interest expense
SCB Germany	$ -	1.50	3,270
SCB Hong Kong	-	6.25	578
SCB New York	-	1.25	373
SCB China	-	8.00	345
SCB	-	1.25	20
	$ -		4,586

	2016		
	Balance	Interest rate %	Interest expense
SCB Germany	$ -	1.50	3,612
SCB China	-	4.87	642
SCB Japan	-	1.55	156
SCB New York	-	0.50	125
SCB Hong Kong	-	13.25	85
SCB Singapore	-	5.75	79
SCB	-	1.25	31
	$ -		4,730

As of December 31, 2017 and, 2016, no interest payables resulting from the above overdrafts on banks to affiliates was recorded.

(h) Call loans from banks—affiliates

	2017		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 42,468,776	0.28~2.00	240,157
SCB Vietnam	1,492,389	2.20	274
SCB Macau	776,042	0.91~1.52	10,794
SCB Taipei	596,956	0.27~1.45	42,282
SCB Singapore	-	1.30~1.80	27,560
SCB	-	1.65	25,712
SCB New York	-	1.70	15,279
SCB Thailand	-	1.55	11,955
SCB China	-	0.95~1.50	8,514
SCB Korea	-	0.90~1.50	6,197
SCB Japan	-	-	100
	$ 45,334,163		388,824

	2016		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 12,926,061	0.08~6.80	59,813
SCB New York	9,685,029	0.85~1.75	16,621
SCB Korea	1,291,337	0.42~1.10	3,924
SCB Macau	1,093,392	0.05~0.99	6,500
SCB Taipei	613,385	0.39~0.70	2,327
SCB China	-	0.36~0.67	13,514
SCB	-	1.00	2,184
SCB Japan	-	0.11~1.30	1,408
SCB Singapore	-	0.50	760
SCB Thailand	-	0.50	110
	$ 25,609,204		107,161

(Continued)

As of December 31, 2017 and 2016, the interest payables resulting from the above call loans from banks to affiliates were $67,057 thousand and $15,835 thousand, respectively, recorded under related parties payable.

(i) The fair value of financial debentures acquired from affiliates, which were recognized as available for sale financial assets were as follows:

Name	Fair value December 31, 2017	Fair value December 31, 2016
SCB Hong Kong	$ -	6,401,769

For the years ended December 31, 2017 and 2016, the interest income resulting from the above transaction were $227,078 thousand and $439,602 thousand, respectively.

(j) The detail of securities purchased under resell agreement and debt instruments acquired from affiliates were as follows:

Name	December 31, 2017
SCB	$ 238,185

For the years ended December 31, 2017, the interest income resulting from the above transaction was $1,421 thousand, respectively. As of December 31, 2017, the interest receivable resulting from the above transaction was $162 thousand, recorded under receivables—net.

(k) The issuance of financial debentures to affiliates were as follows:

Name	Bond (note)	December 31, 2017	December 31, 2016
SCB	103-2	5,969,557	6,456,686

Note: The issuance conditions and details of financial debentures are stated in note 6(17).

For the years ended December 31, 2017 and 2016, the interest expenses on the above transactions were $277,770 thousand and $403,805 thousand, respectively. As of December 31, 2017 and 2016, the interest payables on the above transactions were $10,447 thousand and $11,299 thousand, respectively, recorded under related parties payable.

(l) Guarantee

	2017			
	Maximum balance during the period	Ending balance	Expense	Collateral
SCB Indonesia	$ 11,939	11,939	USD100 (per case)	None

(Continued)

	2016				
	Maximum balance during the period		Ending balance	Expense	Collateral
SCB Indonesia	$	25,827	25,827	USD100 (per case)	None
SCB Hong Kong		12,913	12,913	0.25% (per quarter)	None

(m) For the years ended December 31, 2017, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $1,042,050 thousand, $530,087 thousand, and $128,997 thousand, respectively. For the years ended December 31, 2016, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $1,012,446 thousand, $287,723 thousand, and $195,000 thousand, respectively. As of December 31, 2017 and 2016, fees payables to SCB were $8,144,014 thousand and $10,076,197 thousand, respectively, recorded under related parties payable. Moreover, for the years ended December 31, 2016, the royalty expenses for obtaining the right to use intellectual property of the SC PLC Group reversed was $570 thousand. For the years ended December 31, 2017, and 2016, the group insurance expenses for entering the group insurance amounted to $23,600 thousand and $33,431 thousand, respectively.

(n) For the years ended December 31, 2017 and 2016, the related cost of the Executive Share Option Scheme amounted to $26,038 thousand and $23,425 thousand, respectively. As of December 31, 2017 and 2016, the estimated accounts payable to SCB for the share-based payment scheme costs amounted to $45,183 thousand and $20,980 thousand, respectively, recorded under related parties payable, the prepaid fee to SCB for the share-based payment scheme costs amounted to $832 thousand and $900 thousand, respectively, recorded under other assets—net.

(o) For the years ended December 31, 2017 and 2016, expenses resulting from operating and other business related activities with affiliates were as follows:

Name		2017	2016
Technical support service fees:			
SCB Hong Kong	$	10,738	6,761
SCB Singapore		6,124	2,935
SCB		5,074	10,292
Other		746	1,985
Total	$	22,682	21,973
Information technology service fees:			
Standard Chartered Global Business Services Private Limited	$	102,264	97,438
Standard Chartered Global Business Services Sdn Bhd		100,403	101,502
Total	$	202,667	198,940

(Continued)

Name		2017	2016
Consultant service income, origination income, and trading income:			
SCB	$	199,646	333,232
SCB Hong Kong		61,521	4,266
SCB New York		23,781	24,392
SCB China		10,652	8,943
SCB Singapore		5,902	-
SCB Germany		2,324	2,421
Other		1,804	704
Total	$	305,630	373,958
Consultant service fees, origination fees:			
SCB	$	11,928	23
SCB Korea		10,911	-
SCB Singapore		4,935	82
SCB Hong Kong		2,073	80
SCB Vietnam		356	1,735
SCB Philipines		120	4,266
SCB France		85	1,834
SCB Australia		3	1,684
SCB China		(3,712)	7,795
Other		861	905
Total	$	27,560	18,404

As of December 31, 2017 and 2016, technical support service fees payables and information technology service fees payables were $29,265 thousand and $28,405 thousand, respectively, recorded under related parties payable. As of December 31, 2017 and 2016, consultant service income, origination income, and trading income receivables were $275,636 thousand and $102,673 thousand, respectively, recorded under receivables—net. As ofDecember 31, 2017 and 2016, consultant service fees, origination fees and trading fees payables were $53,051 thousand and $36,896 thousand, respectively, recorded under related parties payable.

(p) The Bank has signed a rental contract with SCB Taipei which was calculated by either the main rental contract or market situation and the rental area. The rentals were received monthly. For the years ended December 31, 2017 and 2016, the rentals were $3,122 thousand and $3,189 thousand, respectively. As of December 31, 2017 and 2016, the utility and information system usage income receivables from SCB Taipei were $71 thousand and $99 thousand, respectively, recorded under receivables—net. For the years ended December 31, 2017 and 2016, the related recharge from expense allocation were $947 thousand and $1,158 thousand, respectively.

(q) For the years ended December 31, 2017 and 2016, the administrative support service income from SCB Taipei to the Bank were $3,184 thousand and $3,194 thousand, respectively.

(Continued)

(r) The Bank entered into the Exclusivity Fee Sharing Agreement with Standard Chartered Bank Singapore. For the years ended December 31, 2017 and 2016, the service fee income were \$562,083 thousand and \$613,516 thousand, respectively, recorded under under net service fee income. As of December 31, 2017 and 2016, the service income receivables were \$2,050,231 thousand and \$1,592,926 thousand, respectively, recorded under receivables－net. (Please refer to note 9 Significant Contingent Liabilities and Unrecognized Contract Commitments－(3)significant service agreements section for related information.)

3) The salary and remuneration of directors and supervisors

	2017	2016
Salary and other short term benefits	$ 242,186	273,539
Post-employment benefit	1,101	1,512
Total	$ 243,287	275,051

(8) Pledged Assets

Units: in thousands of New Taiwan Dollars

Pledged assets	Pledged for	Face value December 31, 2017	Face value December 31, 2016
Negotiable certificates of deposit, bonds (recorded under other financial assets)	Provision seizures	$ 2,900	6,600
	USD overdraft clearing deposits	7,000,000	13,835,000
Total		$ 7,002,900	13,841,600

Refundable security deposits set as pledged assets made in accordance with the relevant regulations governing bank operations are as follows:

Pledged assets	Pledged for	Face value December 31, 2017	Face value December 31, 2016
Negotiable certificates of deposit, bonds (recorded under other financial assets)	Trust indemnity reserve	$ 150,000	150,000
	Operating deposits for foreign bond agency business	50,000	50,000
	Operating deposits for securities underwriting	50,000	50,000
	Operating deposits for bills business	100,000	100,000
	Settlement reserves for bond proprietary trading	100,000	100,000
		450,000	450,000
Guarantee deposits paid (recorded under other assets)	Operating deposits and settlement reserves for bond proprietary trading	50,300	50,300
Total		$ 500,300	500,300

(Continued)

1) Provision seizures are collateral placed with the court in order to execute the Bank's right over debtors' properties.

2) USD overdraft clearing deposits are security deposits for the overdraft facility of the Bank.

3) Reserves for indemnity obligations are provided in the way of deposits placed in the Central Bank of China for conducting trust and custodian business.

4) Operating deposits for foreign bond agency business are operating deposits placed for operating business of foreign bond agency approved by the competent authority. The provision is prepared in accordance with the Regulations Governing Securities Firms.

5) Operating deposits for securities underwriting are operating deposits placed for operating business of securities underwriting business approved by the competent authority in accordance with the Regulations Governing Securities Firms. (Deposits required in accordance with relevant regulations for securities underwriting is $40,000 thousand)

6) Operating deposits for bills business are deposits placed in the Central Bank of the Republic of China for the Bank's bills business.

7) Operating deposits and settlement reserves for bond proprietary trading are comprised of the Bank's operating deposits for securities business, self-regulatory fund deposits in Taiwan Securities Association, and settlement reserves placed in the Taipei Exchange's electronic bond trading system, which were prepared in accordance with the related regulation.

(9) Significant Contingent Liabilities and Unrecognized Contract Commitments

1) Commitments and contingent liabilities

	December 31, 2017	December 31, 2016
Consignment collection for others	$ 5,830,661	7,333,235
Securities, consignments and goods in custody	2,376,437,835	1,847,217,531
Trust assets	94,424,876	89,151,397
	$ 2,476,693,372	1,943,702,163
Other guarantees	$ 3,271,993	2,712,222
Unused amount of irrevocable loan commitments	$ 527,051	697,346
Unused amount of irrevocable letters of credit	$ 1,796,637	886,991

2) Operating leases

Estimated irrevocable operating lease of minimum future lease payments were as follows:

	December 31, 2017	December 31, 2016
Not later than one year	$ 431,888	444,289
Later than one year and less than five years	816,016	1,223,322
Total	$ 1,247,904	1,667,611

3) Significant service agreements

The Bank entered into a bancassurance agreement with PCA Life Assurance Co., Ltd. ("PCA") and SCLIA on July 4, 2014 to continue the tripartite partnership and to promote and sell approved insurance products. SCLIA entered into the Exclusivity Fee Sharing Agreement with SCB Singapore on December 30, 2014. Since SCLIA has merged into the Bank through absorption in October 1, 2016. As of the date of merger, rights and obligations related to the service agreements of SCLIA were generally assumed by the Bank.

4) Disclosures required by Article 17 of the Trust Enterprise Law on trust balance sheets, trust income statements, and trust assets were as follows:

Trust balance sheet
December 31, 2017

Trust assets		Trust liabilities	
Bank deposits	$ 5,758	Accounts payable	$ 5
Short-term investments	89,476,508	Tax payable	1
Structured notes	4,319,337	Payables for securities under custody	623,272
Securities under custody	623,272	Trust capital and accumulated earnings	93,801,598
Other assets	1		
Total trust assets	$ 94,424,876	Total trust liabilities	$ 94,424,876

Trust balance sheet
December 31, 2016

Trust assets		Trust liabilities	
Bank deposits	$ 6,478	Accounts payable	$ 6
Short-term investments	85,102,954	Tax payable	1
Structured notes	3,351,690	Payables for securities under custody	690,274
Securities under custody	690,274	Trust capital and accumulated earnings	88,461,116
Other assets	1		
Total trust assets	$ 89,151,397	Total trust liabilities	$ 89,151,397

Trust income statements

	2017	2016
Trust revenue:		
Interest revenue	$ 4,001,698	3,527,834
Common stock cash dividends	358	375
Realized gain on investments	2,287,405	1,184,336
Unrealized gain on investments	3,917,889	4,323,254
	10,207,350	9,035,799

(Continued)

		2017	2016
Trust expenses:			
Management expense		59	83
Service charges		1	1
Realized loss on investments		2,155,260	3,769,501
Unrealized loss on investments		1,108,305	1,327,590
Loss on trading of assets		37	11
		3,263,662	5,097,186
Net gain before income tax	$	6,943,688	3,938,613
Income tax expense		-	-
Net gain after income tax	$	6,943,688	3,938,613

Schedules of investment for trust business

Investment items		December 31, 2017	December 31, 2016
Bank deposits	$	5,758	6,478
Short-term investments:			
Bonds		23,170,622	19,550,567
Common stock		3,913,947	3,113,795
Funds		62,391,939	62,438,592
Structured notes		4,319,337	3,351,690
Securities under custody		623,272	690,274
Other assets		1	1
	$	94,424,876	89,151,397

Foreign currency trust business engaged by the Offshore Banking Unit (OBU) as of December 31, 2017 and 2016, were included in the trust balance sheets and schedules of investment for trust business.

(10) Significant Disaster Loss: None.

(11) Significant Subsequent Events

According to the amendment to the "Income Tax Act "enacted by the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, this amendment will increase the Bank's current and deferred tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the temporary differences and the unused tax losses carryforward recognized on December 31, 2017, the deferred tax assets and liabilities would increase by $262,774 thousand and $99,185 thousand, respectively.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

(12) Others

1) Profitability

Unit: %

Items		December 31, 2017	December 31, 2016
Return on assets	Before income tax	0.41	0.12
	After income tax	0.35	0.03
Return on equity	Before income tax	6.06	1.83
	After income tax	5.13	0.39
Net profit ratio		16.31	1.37

Note 1: Return on assets = net income before / after tax ÷ average assets

Note 2: Return on equity = net income before / after tax ÷ average equity

Note 3: Net profit ratio = net income after tax ÷ net revenue

(13) Other Disclosures Items

For the years ended December 31, 2017, relevant information of any major transactions that the Bank was required to disclose are as follow:

1) Related information on significant transaction

(a) Information regarding securities for which the purchase or sale amount for the period exceeded NT$300 million or 10% of the Bank's paid in capital: None.

(b) Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Bank's paid in capital: None.

(c) Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid in capital：

Units: in thousands of New Taiwan Dollars

Seller	Name of the property	Trade (actual) date	Acquisition date	Net book value	Transaction amount	Collection status	Gain (loss) on disposal	Counterparty	Relationship with counterparty	Purpose of disposal	Price reference	Other terms and conditions
Standard Chartered Bank (Taiwan) Limited	No. 90, Zhongzheng Rd., Luzhu Dist., Taoyuan City	2017/1/13	1994/2/22	149,003	300,030	Payment received.	141,967	Ming Yang Construction Co., Ltd.	None.	Asset Activation.	Referring to appraisal report.	None.

(d) Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: None.

(e) Information regarding from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid in capital: Notes 6(6) and 7.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

(f) Information regarding selling non performing loans：

i. Summary table of NPL disposal: None.

ii Disposal of a single batch of NPL up to 1 billion and information on each transactions: None.

(g) Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: None.

(h) Business relationship, and material transaction and amount between the parent party and subsidiaries and among subsidiaries themselves: Not applicable.

(i) Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: None.

2) Information on long-term equity investments and combined shareholding ratios:

Name of investee	Investee's location	Investee's operation	Percentage of ownership	Book value of investments	Gain (loss) recognized during the period	Holdings				Remark
						Number of shares (thousand)	Pro forma number of shares (thousand)	Total		
								Shares (thousand)	Percentage	
Taiwan Small and Medium Enterprises Development Corp.	8F., No.181, Fushing N. Rd., Songshan District, Taipei City 10596, Taiwan (R.O.C.)	Small and medium enterprises improvement services	4.84 %	29,000	-	3,417	-	3,417	4.84 %	Note
Financial Information Service Co., Ltd.	No.81, Sec. 3, Kangning Rd., Neihu District, Taipei City 11485, Taiwan (R.O.C.)	Information technology services	1.14 %	45,500	-	5,938	-	5,938	1.14 %	Note
TSC Bio Venture Management, Inc.	5F., No.50, Sec. 1, Sinsheng S. Rd., Jhongjheng Dist., Taipei City 100, Taiwan (R.O.C.)	Venture capital services	5.00 %	8,505	-	851	-	851	5.00 %	Note
Universal Venture Investment, Inc.	8F., No.70, Sec. 3, Nanjing E. Rd., Jhongshan District, Taipei City 10489, Taiwan (R.O.C.)	Venture capital services	4.76 %	7,949	-	607	-	607	4.76 %	Note
Windance Co., Ltd.	No.243-1, Jhongyang Rd., North District, Hsinchu City 30041, Taiwan (R.O.C.)	Residential and commercial lease/sale services	2.73 %	188,500	-	18,850	-	18,850	2.73 %	Note
Taiwan Asset Service Corporation	10F., No.300, Sec. 4, Jhongsiao E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	Asset auction notarization	2.94 %	50,000	-	5,000	-	5,000	2.94 %	Note

(Continued)

The disclosures of assets, liabilities, and profit or loss are in accordance with the accounting policies of the SC PLC Group. The Bank's information and recognciliation of operating esgment were as follows:

	2017				
	Retail Banking	Internation Corporates and Financial Institutions Banking	Commercial Banking	Other Banking	Total
Interest income	$ 5,147,129	1,747,452	523,769	2,186,989	9,605,339
Interest expense	16,610	(894,745)	(63,819)	(3,333,136)	(4,275,090)
Net interest income	5,163,739	852,707	459,950	(1,146,147)	5,330,249
Net service fee income	3,537,143	825,492	82,825	12,384	4,457,844
Other miscellaneous income	390,815	693,211	189,383	2,400,745	3,674,154
Net income	9,091,697	2,371,410	732,158	1,266,982	13,462,247
Bad debt expense and (provision for) reversal guarantee liabilities	(310,718)	(18,306)	(439,323)	-	(768,347)
Operating expense	(7,718,014)	(1,180,207)	(925,908)	(279,079)	(10,103,208)
Segment profit or loss	$ 1,062,965	1,172,897	(633,073)	987,903	2,590,692
Segment assets	$ 194,635,206	83,318,312	33,104,762	336,858,111	647,916,391
Segment liabilities	$ 308,577,639	185,365,210	36,052,999	74,083,144	604,078,992

	2016				
	Retail Banking	International Corporates and Financial Institutions Banking	Commercial Banking	Other Banking	Total
Interest income	$ 5,761,544	1,369,853	478,234	2,116,058	9,725,689
Interest expense	(175,654)	(717,523)	1,935	(2,676,529)	(3,567,771)
Net interest income	5,585,890	652,330	480,169	(560,471)	6,157,918
Net service fee income	3,100,893	836,623	101,557	(27,820)	4,011,253
Other miscellaneous income	808,893	590,272	252,066	408,792	2,060,023
Net income	9,495,676	2,079,225	833,792	(179,499)	12,229,194
Bad debt expense and (provision for) reversal guarantee liabilities	(419,027)	(52,245)	(999,609)	1,068	(1,469,813)
Operating expense	(7,698,921)	(1,245,405)	(947,131)	(90,538)	(9,981,995)
Segment profit or loss	$ 1,377,728	781,575	(1,112,948)	(268,969)	777,386
Segment assets	$ 194,863,574	90,087,045	29,019,500	301,553,916	615,524,035
Segment liabilities	$ 297,544,070	159,959,193	59,831,322	56,460,290	573,794,875

Note: Departmental information for the years ended December 31, 2017 is based on the disclosure of the organization after the rearrangements in 2016.

Name of investee	Investee's location	Investee's operation	Percentage of ownership	Book value of investments	Gain (loss) recognized during the period	Holdings: Number of shares (thousand)	Holdings: Pro forma number of shares (thousand)	Holdings: Total Shares (thousand)	Holdings: Total Percentage	Remark
Yang Guang Asset Management Company	11F., No.85 and No.87, Sec. 2, Nanjing E. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	NPL acquisition services	1.42 %	849	-	85	-	85	1.42 %	Note

Note: Shares held by the Bank remained the same as compared to December 31, 2016.

3) Setting up branches and investing in Mainland China:

(a) Name, main operating item and other information of the invested company in Mainland China: None.

(b) Amount limitation of investments in Mainland China: None.

(14) Operating Segment Financial Information

The Bank presents the following segment information for the decision makers of the bank to allocate resources and evaluate each segment' s performance. The information focuses on the results from the operations of the relevant segments and their respective profits before tax. Reported segments in accordance with IFRS No. 8 are as follows:

1) Retail Banking: In charge of developing a long-term sustainable customer-focused strategy and building a high performance culture through robust execution. Responsible for retail clients segment development in customer value propositions, product development.

2) International Corporates and Financial Institutions Banking: International Corporates & Financial Institutions Banking provides International Corporates and Financial Institutions clients with trade finance, cash management, securities services, foreign exchange and risk management, capital raising and corporate finance solutions.

3) Commercial Banking: The Commercial Banking segment mainly targets at serving corporate clients, particularly those clients with trade finance or international cash management needs. The professional financial services we provide include short-term loans for working capital, mid-term or long-term financing, import and export trade financing, supply chain financing, cash management, foreign exchange services and corporate internet banking, etc.

4) Other Banking services: Including asset and liability management and other assets, liabilities, income, and expense that cannot be classified under a specific department.

Management monitors each segment's performance in order to allocate the required resources and to evaluate its performance. Segments' performance is evaluated according to its operating gain or loss. The disclosures of assets, liabilities, and profit or loss are in accordance with the accounting policies of the Bank specified under note 4. Segmental gains and losses includes inter department transfer pricing expenses as well as head office allocated expenses. Income tax expense (income) is not allocated to the reportable segments for disclosure purposes.

Majority of the Bank's business is located domestically and there is no income from one single client that represents more than 10% of the consolidated income of the Bank.

(Continued)