Stock Code:2807

Standard Chartered
渣打銀行

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Financial Statements

With Independent Auditors' Report
For the Six Months Ended June 30, 2018 and 2017

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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 June 30, 2018, December 31 and June 30, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended June 30, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements in all material respects, the financial position of the Bank as of June 30, 2018, December 31 and June 30, 2017, and the results of its operations and its cash flows for the six months ended June 30, 2018 and 2017, 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 Accounting Standard 34 "Interim Financial Reporting" endorsed by the FSC.

Basis for Opinion

We conducted our audit in accordance with the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and Generally Accepted Auditing Standards in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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 receivables

1) Risk and descriptions of the key audit matter:

Loans and advances refer to financial assets measured at amortised cost where quoted market prices are not available. The risk is that the estimation of the provision for allowance of bad debt 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 and receivables are grouped and monitored by product into homogeneous exposures, which also drive the assessment of loan loss provisions.

Despite the overall growth in Taiwan's 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 correction of property market in recent years, causing the values of the collaterals to drop which increased the probability of insufficient guarantee. This matter requires significant attention of our audit for the financial statement.

Please refer to notes 6(g) and (h) 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 expected credit loss, our procedures included:
  — Assessing the appropriateness of the models used for calculating the Expected Credit Loss.
  — 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 fair value through other comprehensive income 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 June 30, 2018. 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(ak) 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.

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

- Valuing a selection of debt securities, equity instruments 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. Recognition 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 measurement of the deferred tax assets, which requires the 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 note 6(v) 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 disclosures of the deferred tax assets are appropriate.

4. 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 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. There are potential undisclosed related party transactions; however, the amounts do not result in material related party transctions.

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.

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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 International Accounting Standard 34 "Inerim Finanical Reporting" 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.

- 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)
August 28, 2018

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Balance Sheets

June 30, 2018, December 31, 2017, and June 30, 2017

(Expressed in thousands of New Taiwan Dollars)

	Assets	June 30, 2018 Amount	%	December 31, 2017 Amount	%	June 30, 2017 Amount	%
11000	Cash and cash equivalents (notes 6(a) and 7)	$ 18,765,683	3	26,535,866	4	11,192,786	2
11500	Due from the Central Bank and call loans to banks (notes 6(b) and 7)	84,025,675	13	115,118,255	18	116,593,237	19
12000	Financial assets at fair value through profit or loss (notes 6(c) and 7)	26,757,912	4	15,915,189	2	22,217,678	4
12100	Financial assets at fair value through other comprehensive income (note 6(d))	169,103,717	28	-	-	-	-
12300	Derivative financial assets for hedging－net (notes 6(e) and 7)	97,307	-	9,784	-	19,698	-
12500	Securities purchased under resell agreements and debt instruments (notes 6(a), (f) and 7)	3,329,259	1	3,356,185	1	1,641,128	-
13000	Receivables－net (notes 6(g), (h) and 7)	14,816,977	2	20,975,429	3	18,940,345	3
13200	Current tax assets (note 6(v))	388,997	-	289,519	-	208,258	-
13500	Discounts and loans－net (notes 6(e), (h) and 7)	270,464,977	45	262,812,237	41	255,622,751	42
14000	Available-for-sale financial assets－net (notes 6(e), (i) and 7)	-	-	185,135,013	29	164,913,895	27
15500	Other financial assets－net (notes 6(h), (j), 8 and 13(b))	7,054,002	1	7,587,452	1	7,423,829	1
18500	Property and equipment－net (notes 6(k) and 13(a))	4,463,735	1	4,422,756	1	4,393,829	1
19000	Intangible assets－net (note 6(l))	3,156,048	1	3,156,048	-	3,156,048	1
19300	Deferred tax assets (note 6(v))	1,378,146	-	1,489,054	-	1,554,417	-
19500	Other assets－net (notes 6(m), 7 and 8)	3,789,040	1	1,113,604	-	1,651,910	-
	Total assets	$ 607,591,475	100	647,916,391	100	609,529,809	100

	Liabilities and Equity	June 30, 2018 Amount	%	December 31, 2017 Amount	%	June 30, 2017 Amount	%
	Liabilities:						
21000	Deposits from the Central Bank and banks (notes 6(n) and 7)	$ 54,259,495	9	59,092,527	9	56,138,356	9
22000	Financial liabilities at fair value through profit or loss (notes 6(c) and 7)	14,246,467	2	7,384,904	1	8,426,778	1
22300	Derivative financial liabilities for hedging－net (notes 6(e) and 7)	15,217	-	43,768	-	135,687	-
23000	Payables (note 6(o))	4,072,476	1	3,676,343	1	3,869,968	1
23100	Related parties payable (note 7)	9,514,945	2	8,353,294	1	10,691,992	2
23200	Current tax liabilities (note 6(v))	8,646	-	20,583	-	-	-
23500	Deposits and remittances (notes 6(e), (p), and 7)	463,312,435	77	505,410,260	79	467,938,945	77
24000	Financial debentures－net (notes 6(e), (q), and 7)	8,102,300	1	14,530,780	2	14,657,686	3
25500	Other financial liabilities (note 6(v))	1,641,978	-	1,264,386	-	776,865	-
25600	Provisions (notes 6(h), (s) and (u))	1,586,253	-	1,587,395	-	1,514,543	-
29300	Deferred tax liabilities (note 6(v))	819,795	-	682,519	-	652,503	-
29500	Other liabilities (note 6(t))	5,834,364	1	2,032,233	-	1,883,307	-
	Total liabilities	563,414,371	93	604,078,992	93	566,686,630	93
	Equity:						
31101	Common stock (note 6(w))	29,105,720	5	29,105,720	5	29,105,720	5
31500	Capital surplus (note 6(w))	5,794,771	1	5,794,771	1	5,794,771	1
	Retained earnings:						
32001	Legal reserve (note 6(w))	7,090,437	1	6,431,895	1	6,431,895	1
32003	Special reserve (note 6(w))	354,033	-	343,057	-	343,057	-
32005	Unappropriated earnings (note 6(w))	1,782,210	-	2,108,311	-	1,205,948	-
		9,226,680	1	8,883,263	1	7,980,900	1
32500	Other equity interest (note 6(w))	49,933	-	53,645	-	(38,212)	-
	Total equity	44,177,104	7	43,837,399	7	42,843,179	7
	Total liabilities and equity	$ 607,591,475	100	647,916,391	100	609,529,809	100

See accompanying notes to interim financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Statements of Comprehensive Income

For the six months ended June 30, 2018 and 2017

(expressed in thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		For the six months ended June 30			
		2018		2017	
		Amount	%	Amount	%
41000	**Interest income (notes 6(z) and 7)**	$ 4,896,659	70	4,721,270	67
51000	**Less：Interest expense (notes 6(z) and 7)**	2,696,172	38	2,061,199	29
	Net interest income	2,200,487	32	2,660,071	38
	Net non-interest income				
49100	Net service fee income (notes 6(aa) and 7)	2,457,552	35	2,114,327	30
49200	Gain on financial assets or liabilities at fair value through profit or loss (notes 6(ab) and 7)	2,001,950	28	410,202	6
49300	Realized gain on available-for-sale financial assets (note 6(ac))	-	-	351	-
49310	Realized gain on financial assets at fair value through other comprehensive income(note 6(ad))	11,061	-	-	-
49600	Foreign exchange gain	341,745	5	1,710,515	24
49800	Net other non-interest income (notes 6(e), (j), (ae) and 7)	3,391	-	154,599	2
49700	Impairment losses on assets (notes 6(d) and (af))	(3,306)	-	-	-
	Net revenue	7,012,880	100	7,050,065	100
58200	Bad debt expense, commitment and guarantee liability provision (notes 6(h) and (ag))	199,122	3	532,893	8
	Operating expenses:				
58500	Employee benefits expenses (notes 6(u), (x), (ah) and 7)	2,631,649	38	2,445,874	35
59000	Depreciation and amortisation expenses (notes 6(k) and (ai))	81,658	1	91,014	1
59500	Other general and administrative expenses (notes 6(aj) and 7)	2,170,462	31	2,477,317	35
	Total operating expenses	4,883,769	70	5,014,205	71
	Income before tax	1,929,989	27	1,502,967	21
61003	Less: income tax expenses (note 6(v))	242,811	3	271,813	4
	Profit	1,687,178	24	1,231,154	17
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(u))	17,856	-	(30,369)	-
65204	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income (note 6(w))	102,817	1	-	-
65220	Income tax benefit related to items that may not be reclassified subsequently to profit or loss (note 6(v))	(1,412)	-	5,163	-
	Total items that may not to be reclassified subsequently to profit or loss	119,261	1	(25,206)	-
65300	**Items that may be reclassified subsequently to profit or loss:**				
65302	Change in fair value of available-for-sale financial assets recognized (note 6(w))	-	-	62,163	1
65303	Change in fair value of cash flow hedges recognized (note 6(w))	-	-	42,383	1
65308	Unrealized losses from investments in debt instruments measured at fair value through other comprehensive income(note 6(w))	(56,612)	(1)	-	-
65305	Gains (losses) on hedging instrument (note 6(w))	8,408	-	-	-
65320	Income tax benefit related t oitems that may be reclassified subsequently to profit or loss (note 6(w))	318	-	18,985	-
	Total items that may be reclassified subsequently to profit or loss	(47,886)	(1)	123,531	2
65000	**Other comprehensive income, net of tax**	71,375	-	98,325	2
	Total comprehensive income	**$ 1,758,553**	**24**	**1,329,479**	**19**
	Basic earnings per share(NTD) (note 6(y))	$ 0.58		0.42	

See accompanying notes to interim financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Statements of Changes in Equity

For the six months ended June 30, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

	Share capital		Retained earnings			Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Other items in stockholders' equity			
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings		Unrealized gains (losses) on available-for-sale financialassets	Gains (losses) on effective portion of cash flow hedges	Gains (losses) on hedging instruments	Total equity
Balance at January 1, 2017	$ 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(w))	-	-	50,105	-	(50,105)	-	-	-	-	-
Special reserve (note 6(w))	-	-	-	835	(835)	-	-	-	-	-
Cash dividends of ordinary share (note 6(w))	-	-	-	-	(215,460)	-	-	-	-	(215,460)
Net income	-	-	-	-	1,231,154	-	-	-	-	1,231,154
Other comprehensive income	-	-	-	-	(25,206)	-	88,353	35,178	-	98,325
Total comprehensive income	-	-	-	-	1,205,948	-	88,353	35,178	-	1,329,479
Balance at June 30, 2017	**$ 29,105,720**	**5,794,771**	**6,431,895**	**343,057**	**1,205,948**	**-**	**(32,963)**	**(5,249)**	**-**	**42,843,179**
Balance at January 1, 2018	$ 29,105,720	5,794,771	6,431,895	343,057	2,108,311	-	64,612	(10,967)	-	43,837,399
Effects of retrospective application	-	-	-	-	78,588	5,969	(64,612)	10,967	(10,967)	19,945
Equity at beginning of period after adjustments	29,105,720	5,794,771	6,431,895	343,057	2,186,899	5,969	-	-	(10,967)	43,857,344
Appropriation and distribution of retained earnings:										
Legal reserve (note 6(w))	-	-	658,542	-	(658,542)	-	-	-	-	-
Special reserve (note 6(w))	-	-	-	10,976	(10,976)	-	-	-	-	-
Cash dividends of ordinary share (note 6(w))	-	-	-	-	(1,438,793)	-	-	-	-	(1,438,793)
Net income	-	-	-	-	1,687,178	-	-	-	-	1,687,178
Other comprehensive income	-	-	-	-	16,444	47,808	-	-	7,123	71,375
Total comprehensive income	-	-	-	-	1,703,622	47,808	-	-	7,123	1,758,553
Balance at June 30, 2018	**$ 29,105,720**	**5,794,771**	**7,090,437**	**354,033**	**1,782,210**	**53,777**	**-**	**-**	**(3,844)**	**44,177,104**

See accompanying notes to interim financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

		For the six months ended June 30	
		2018	2017
Cash flows from (used in) operating activities:			
Profit before tax	$	1,929,989	1,502,967
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation expense		81,658	91,014
Bad debt expense, commitment and guarantee liability provision		199,122	532,893
Interest expense		2,696,172	2,061,199
Interest income		(4,896,659)	(4,721,270)
Net change in other provisions		(14,113)	(616)
Gain on disposal of property and equipment		-	(130,460)
Impairment losses on assets		3,306	-
Total adjustments to reconcile profit (loss)		(1,930,514)	(2,167,240)
Changes in operating assets and liabilities:			
Changes in operating assets:			
Due from the Central Bank and call loans to banks		(7,891,127)	(11,729,545)
Financial assets at fair value through profit or loss		(10,842,809)	4,313,001
Financial assets at fair value through other comprehensive income		16,335,665	-
Receivables		5,704,151	41,778
Discounts and loans		(7,823,518)	11,078,848
Available-for-sale financial assets		-	(6,972,038)
Other financial assets		410,573	6,879,073
Total changes in operating assets		(4,107,065)	3,611,117
Changes in operating liabilities:			
Deposits from the Central Bank and banks		(4,833,032)	24,726,301
Financial liabilities at fair value through profit or loss		6,861,563	(6,456,061)
Payables		1,424,920	646,753
Deposits and remittances		(42,097,825)	(24,667,988)
Other financial liabilities		377,592	(256,408)
Other liabilities		3,802,131	128,676
Total changes in operating liabilities		(34,464,651)	(5,878,727)
Total changes in operating assets and liabilities		(38,571,716)	(2,267,610)
Total adjustments		(40,502,230)	(4,434,850)
Cash outflow generated from operations		(38,572,241)	(2,931,883)
Interest received		5,241,782	4,501,025
Interest paid		(2,563,308)	(2,026,839)
Income taxes (paid) refund		(118,967)	29,647
Net Cash flows used in operating activities		(36,012,734)	(428,050)
Cash flows used in investing activities:			
Acquisition of property and equipment		(122,637)	(50,640)
Proceeds from disposal of property and equipment		-	383,436
Increase in derivatives collateral		(2,540,300)	(690,037)
(Increase) decrease in other assets		(137,712)	346,095
Net cash flows used in investing activities		(2,800,649)	(11,146)
Cash flows used in financing activities:			
(Decrease) increase in derivative financial instruments for hedging		(91,932)	268,830
Decrease in finanical debentures		(6,567,046)	(1,020,846)
Cash dividends paid		(1,438,793)	(215,460)
Net cash flows used in financing activities		(8,097,771)	(967,476)
Change in foreign exchange rate		130,543	(369,693)
Net decrease in cash and cash equivalents		(46,780,611)	(1,776,365)
Cash and cash equivalents at beginning of period		116,225,381	96,328,538
Cash and cash equivalents at end of period	$	**69,444,770**	**94,552,173**
Composition of cash and cash equivalents:			
Cash and cash equivalents reported in the statement of financial position	$	18,765,683	11,192,786
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		47,349,828	81,718,259
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7		3,329,259	1,641,128
Cash and cash equivalents at end of period	$	**69,444,770**	**94,552,173**

See accompanying notes to interim financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

June 30, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

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 in August at the same year. In September 1994, pursuant to approval granted by the Taiwan provincial government MOF, the Bank started cross-regional operations. 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 June 30, 2018, the Bank comprises 65 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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STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

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 as of the fourth quarter of 2016.

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 August 28, 2018.

(3) New standards, amendments and interpretations adopted:

(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, 2018.

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

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

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 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.

As a result of the adoption of IFRS 9, the Bank adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous 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 asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Bank classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(e).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(e).

3) Hedge accounting

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

4) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

· Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

· The following assessments have been made on the basis of the facts and circumstances that existed 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.

·If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank assumed that the credit risk on its asset will not increase significantly since its initial recognition.

5) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial assets as of January 1, 2018.

	IAS 39		IFRS 9	
	Measurement categories	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Financial Assets				
Cash and cash equivalents	Amortised cost	26,535,866	Amortised cost	26,535,661
Due from the Central Bank and call loans to banks	Amortised cost	115,118,255	Amortised cost	115,118,169
Financial assets at fair value through profit or loss	Fair value through profit or loss	15,915,189	Fair value through profit or loss	15,915,189
Derivative financial assets for hedging—net	Fair value through profit or loss	9,784	Fair value through profit or loss	9,784
Securities purchased under resell agreements and debt instruments	Amortised cost	3,356,185	Amortised cost	3,356,175
Receivables—net	Amortised cost	20,975,429	Amortised cost	20,856,378

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

	IAS 39		IFRS 9	
	Measurement categories	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Discounts and loans —net	Amortised cost	262,812,237	Amortised cost	262,951,592
Available-for-sale financial assets —net	Fair value through other comprehensive income	185,135,013	Fair value through other comprehensive income (note1)	185,135,013
Other financial assets—net	Fair value through profit or loss (restricted assets)	7,460,090	Fair value through profit or loss	7,460,090
	Financial assets carried at cost	127,362	Fair value through other comprehensive income (note 2)	266,682
Other assets—net	Amortised cost (Refundable deposits)	281,008	Amortised cost	280,996

Note1: When applying IAS 39, some of the debt instruments were classified as available for-sale financial assets, in which the Bank believes that the bond is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the bond; In addition, the contractual terms of the financial asset states that cash flows are solely payments of principal and interest on the principal amount outstanding. When applying IFRS 9, the asset should be classified as financial asset at fair value through other comprehensive income. In the initial implementation of IFRS 9, the provision for impairment had increased by $4,978 thousand, while the retained earnings for January 1, 2018 had decreased by $4,978 thousand, and the other equity had increased by $4,978 thousand according to the transitional procedures.

Note2: Equity instruments measured at cost should be classified as fair value through other comprehensive income when applying IFRS 9. In the initial implementation, as of January 1, 2018, the other equity had decreased by $63,621 thousand, and retained earnings had increased by $202,941 thousand according to the transitional procedures.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

IAS 39		IFRS 9	
Measurement categories	Carrying Amount	Measurement categories	Carrying Amount

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on January 1, 2018.

	December 31, 2017 IAS39 Book balue	Reclassification	Remeasurement	January 1, 2018 IFRS9 Book value	January 1, 2018 Retained earnings effect	January 1, 2018 Other equity effect
Cash and cash equivalents	$ 26,535,866	-	(205)	26,535,661	(205)	-
Due from the Central Bank and call loans to banks	115,118,255	-	(86)	115,118,169	(86)	-
At fair value through profit or loss						
From fair value through profit or loss (IAS39)	15,915,189	-	-		-	-
Change in fair value through profit or loss	15,915,189	-	-	15,915,189	-	-
At fair value through other comprehensive income						
Additions－debt instruments						
From available-for-sale financial assets(IAS39)	185,135,013	-	-		(4,978)	4,978
From amortised cost (Financial assets carried at cost under IAS39)	-	127,362	139,320		202,941	(63,621)
Change in fair value through other comprehensive income	185,135,013	127,362	139,320	185,401,695	197,963	(58,643)
Derivative financial assets for hedging－ net	9,784	-	-	9,784	-	-
Securities purchased under resell agreements and debt instruments	3,356,185	-	(10)	3,356,175	(10)	-
Receivables－net	20,975,429	-	-		-	-
Additions：						
Partial allowance for bad debts are reclassified to allowance for bad debts of provisions and loans	-	-	(119,051)		(119,051)	-
Change in net receivables	20,975,429	-	(119,051)	20,856,378	(119,051)	-
Discounts and loans－net	262,812,237	-	-		-	-
Subtractions：						
Allowance for bad debts reclassified from allowance for bad debts of receivables	-	-	139,355		139,355	-
Change in net discounts and loans	262,812,237	-	139,355	262,951,592	139,355	-
Other financial assets－net	7,587,452	-	-		-	-
Subtractions：						
Equity instruments reclassified to fair value through other comprehensive income (Financial assets carried at cost under IAS39)	-	(127,362)	-		-	-
Change in other financial assets－net	7,587,452	(127,362)	-	7,460,090	-	-
Other assets－refundable deposits	281,008	-	(12)	280,996	(12)	-

Note: Retained earnings are pre-tax effect numbers.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

The adjustments of January 1, 2018 made for the impairment loss recognized under the incurred-loss model of IAS 39 to the expected loss impairment model of IFRS 9 are as follows:

	Impairment allowance under IAS 39 and provision under IAS 37	Reclassification	Remeasurement	Impairment allowance under IFRS 9
Loans and receivables (IAS 39)/ financial assets measured at amortised cost (IFRS)				
Cash and cash equivalents	$ -	-	205	205
Due from central bank and call loans to banks	-	-	86	86
Receivables	217,817	-	119,051	336,868
Discounts and loans	1,977,330	-	652,989	2,630,319
Reverse repo and bond investments	-	-	10	10
Other financial assets	45,213	-	-	45,213
Other assets	-	-	12	12
Additional impairment provision required under "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	2,865,148	-	(792,344)	2,072,804
	5,105,508	-	(19,991)	5,085,517
Available-for-sale financial instruments (IAS 39)/financial assets at fair value through other comprehensive income (IFRS 9)				
Available-for-sale financial assets	-	4,978	-	4,978
Loan commitments and guarantees				
Financing commitments	-	-	98,749	98,749
Guarantee receivables and letter of credit receivables	-	-	1,080	1,080
Additional impairment provision required under "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	33,210	-	27,705	60,915
	33,210	4,978	127,534	165,722
Total	$ 5,138,718	4,978	107,543	5,251,239

Note: The effects are pre-tax amount.

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

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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

(Continued)

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 extent and impact of signification changes are as follows:

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

The Bank has completed an initial assessment of the potential impact on its financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Bank' s discounting rate, the composition of the Bank's lease portfolio at that date, the Bank's latest assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Bank will have to recognize the new assets and liabilities for its operating leases of offices, warehouse and factory facilities. No significant impact is expected for the Bank's finance leases. Besides, the Bank does not expect the adoption of IFRS 16 to have any significant impact on its ability to comply with the revised maximum leverage threshold loan covenant.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Bank can choose whether to:

-apply the IFRS 16 definition of a lease to all its contracts; or

-apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Bank plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

2) Transition

As a lessee, the Bank can either apply the standard using the following:

-retrospective approach; or

-modified retrospective approach with optional practical expedients.

On January 1, 2019, the Bank plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Bank is assessing the potential impact of using these practical expedients.

(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 17 "Insurance Contracts"	January 1, 2021

Those which may be relevant to The Company 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
May 18, 2017	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.

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.

(4) Summary of significant accounting policies:

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

(a) 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, International Accounting Standard 34 "Interim Financial Reporting" endorsed by FSC which have already taken effect and do not include all of the information required by Regulations, International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), International Financial Reporting Interpretations Committee ("IFRICs"), and the Standing Interpretatioins Committee ("SICs") endorsed by the FSC (hereinafter referred to as "the IFRSs endorsed by the FSC") for full annual finacial statements.

(b) Basis of preparation

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

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

(ii) Financial instruments at fair value through other comprehensive income (adopted since January 1, 2018);

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

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

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

(vi) 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.

(c) 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.

(d) 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.

(e) Financial instruments

(i) Financial assets (adopted since January 1, 2018)

Financial assets held by the Bank are recorded on the trading date.

Financial assets are classified into the following categories: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Bank shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

-it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

-its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortised cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

a) 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.

b) 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.

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.

With regards to loans and receivables, the objective evidence shall be identified first to reveal any 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 shall be included in a set of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment are not required to be collectively assessed because impairment is or continues to be recognized. Another estimate will also be reached following Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans issued by the FSC and other related regulations. Final provision will be based on the higher of the two estimates.

Reserves for guarantees and financing commitments are appropriately provided based on the possibilities of bad debts arising from off balance sheet loan commitments and financial guarantee contracts.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

-it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

-its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Continued)

Debt instrument investments at fair value through other comprehensive income should be valued by using the fair value on the reporting date, and the changes in value shall be listed in other comprehensive income as adjustment items. It should also use the effective rate to amortise the discount premium and calculate the interest payable on an accrual basis, as well as recognize the credit impairment loss. If the impairment loss related to the events after impairment recognition is reduced in the subsequent period, it is reversed and recognized as profit or loss in the current period. The reversal is limited by the fact that other comprehensive income recognized as impairment adjustment items cannot be negative. Prior to derecognition, the changes in the remaining book values of financial assets, other than foreign currency related financial asset exchange losses, interest income calculated according to effective interest rate, and impairment losses recognized in income, should be recognized in other comprehensive income and accumulated under equity in " Unrealized profit or loss on financial assets at fair value through other comprehensive income." Upon derecognition, the accumulated profit or loss under equity should be reclassified as profit or loss in the current period.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair vlaue. Dividends deriving from equity investments are recognized as income in profit or loss, and other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to retained earnings.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortised cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Bank may irrevocably designate a financial asset, which meets the requirements to be measured at amortised cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Company assesses whether the financial assets have been credit impaired on the reporting date. The financial assets has been credit impaired when an event with negative impact on the estimated future cash flow of the financial assets has occurred.

The Bank recognizes loss allowances for expected credit losses on financial assets measured at amortised cost (including cash and cash equivalents, amortised costs, notes and accounts receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable and contract assets.

(Continued)

The Bank takes into consideration the reasonable information supported by evidence that can be obtained without excessive cost or input, which includes qualitative and quantitative information, an analysis based on the Bank's past experience, credit evaluation, and prospective information, when determining whether there is a significant increase in the credit risk of financial assets since initial recognition. If a financial asset or portfolio of financial assets does not experience a significant increase in credit risk since initial recognition, the loss allowances are measured at 12-month ECL; and such assets are classified as stage 1 assets. However, if a financial asset, or portfolio of financial assets, experiences a significant increase in credit risk since initial recognition, an ECL allowance should be recognized for default events that may occur over the lifetime of the asset; and such assets are classified as stage 2 assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Bank recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Please refer to note 6(ak) for Information on financial risks for the Bank's judgment on whether the credit risk has significantly increased after initial recognition and prospective adjustments.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Bank transfers substantially all the risks and rewards of ownership of the financial assets.

If majority of the risks and rewards are not kept nor transferred, while the Bank still possess the ownership of the financial assets, then the Bank shall continuously recognize it as assets according to the extent of its own involvement.

6) Reclassification of financial assets

Only when the business model of finanical assets management is changed does the Bank reclassifies the affected financial assets according to regulations.

(ii) Financial assets (adopted before January 1, 2018)

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.

1) 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.

2) Available-for-sale financial assets－net

At each reporting 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 amortised 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 amortised 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.

3) 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.

4) 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 allowance of bad debts. In accordance with the Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans approved by FSC, an allowance for bad debts 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:

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

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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.

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.

5) 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:

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

6) 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:

- 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 amortised cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.

- 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 amortised cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.

- 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 amortised cost, as applicable.

- 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 amortised to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains under owners' equity.

7) 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.

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The aforesaid objective evidence includes:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- Adverse changes in the payment status of the borrower; and
- Changes in national or local economic conditions that correlate with defaults on the assets.

8) 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.

(iii) 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 amortised cost and hedge derivatives.

1) 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.

2) Financial liabilities at amortised cost

Financial liabilities are classified at amortised 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.

3) 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 amortised 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.

4) Derecognition of a financial liability

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

(iv) Derivatives (adopted since January 1, 2018)

Derivatives instruments are 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 of financial liability 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 host contract, and the entire hybrid contract is not designated at fair value through profit orloss or embedded derivative. In addition, the embedded derivative is recognized as financial asset or liability as measured at fair value through profit or loss, it does not need to recognize separately from the host contract.

(v) Derivatives and hedging accounting (adopted before January 1, 2018)

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.

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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:

1) 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.

2) 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.

(f) 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 amortised balance of the assets assuming no impairment loss was recognized in prior periods.

(g) 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.

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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".

(h) 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

(i) Intangible assets

(i) Computer software

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

(ii) 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.

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(j) 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 amortisation 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.

(k) Provisions

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

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

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

(iii) 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.

(l) Revenue and expense recognition

Other than those classified as financial assets at fair value through profit or loss, all the interests and expenses resulting from the interest accrual financial instruments are required to be calculated using the effective interest rate method according to the related policies, and recognized in the income statement under “Interest income” and “Income expense”.

Service fee income and expenses can only be recognized after the completion of loans and other services; if the service fee are earned from performing major projects, it should only be recognized after completion of the major projects. For example, service fee resulting from syndication loans, the service fee income and expenses are related to subsequent loans, it should amortise according to the materiality within the service period or included in the calculation of the effective rates of loans and receivables.

(m) Employee benefit

(i) 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.

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

1) 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.

2) 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.

(n) 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.

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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.

(o) 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 Income Tax Act, a surtax of 10 percent on 2017 undistirbuted earnings (starting from 2018 undistributed earnings are subject to a surtax at the rate of 5 percent) is recognized as current income tax expense in the year of the resolution of earnings distribution proposal by its board of directors on behalf of the shareholders' meeting.

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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.

(p) 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) Significant accounting assumptions and judgments, and major sources of estimation 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.

(a) Impairment evaluation of loans and receivables (adopted since January 1, 2018)

The Bank' s financial asset impairment losses are measured using the 12-months and lifetime expected credit loss value based on whether the credit risks after initial recognition has significant increased or not. To measure expected credit loss, the Bank considers the default rate of the financial assets, issuer, or the counterparty, and multiply by the default exposure value after including in the default loss rate as well as taking into the consideration the impact of time value of money, to estimate the 12-months and lifetime expected credit losses. The Bank' s assumption is based on historical experiences, current market conditions and prospective information. The impairment valuation inputs are then determined subsequently.

(b) Impairment of loans and receivables (adopted before January 1, 2018)

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(h) for impairment loss on loans.

(c) 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.

(d) 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 note 6(v) for further description of the recognition of deferred tax assets.

(e) 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(l) for further description of goodwill recognition.

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Notes to the Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	$ 3,717,884	3,811,025	3,863,602
Checks for clearing	601,087	84,480	2,950
Deposits with other banks	6,434,342	12,445,306	3,182,256
Deposits with other banks－affiliates	8,012,651	10,195,055	4,143,978
Subtotal	18,765,964	26,535,866	11,192,786
Less: allowance for bad debts	281	-	-
Total	$ 18,765,683	26,535,866	11,192,786

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:

	June 30, 2018	December 31, 2017	June 30, 2017
Cash and cash equivalents reported in the statement of balance sheets	$ 18,765,683	26,535,866	11,192,786
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	47,349,828	86,333,330	81,718,259
Securities purchased under resell agreements and debt instruments qualifying for cash and cash equivalents under the definition of IAS 7	3,329,259	3,356,185	1,641,128
Cash and cash equivalents reported in the statement of cash flows	$ 69,444,770	116,225,381	94,552,173

For the six months ended June 30, 2018, changes in the allowance for bad debts of cash and cash equivalents are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 285	6	-	-	-	291	-	291
Transferred to 12-months expected credit losses	19	(19)	-	-	-	-	-	-
Financial assets derecognized during the period	(268)	(14)	-	-	-	(282)	-	(282)
New financial assets originated or purchased	728	46	-	-	-	774	-	774
Foreign currency exchange and other changes	(478)	(19)	-	-	-	(497)	-	(497)
Ending balance	$ 286	-	-	-	-	286	-	286

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(b) Due from the Central Bank and call loans to banks

	June 30, 2018	December 31, 2017	June 30, 2017
Required reserve — checking account	$ 6,390,026	9,694,604	10,802,826
Required reserve — demand account	11,154,933	11,155,771	10,687,361
Required reserve — foreign currency	213,504	208,934	213,045
Required reserve — settlement account	800,530	1,519,654	807,710
Call loans to banks	13,245,188	32,265,692	42,929,518
Call loans to banks — affiliates	51,639,469	55,010,147	40,677,816
Trade finance receivables	582,030	5,263,453	10,474,961
Subtotal	84,025,680	115,118,255	116,593,237
Less: allowance for debts	5	-	-
Total	$ 84,025,675	115,118,255	116,593,237

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.

For the six months ended June 30, 2018, change in the allowance for bad debts of due from the Central Bank and call loans to banks please refer to note 6(a).

(c) 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:

	June 30, 2018
Designation as financial assets at fair value through profit or loss:	
Government bonds	$ 6,781,392
Corporate bonds	1,612,969
Financial debentures	100,002
Subtotal	8,494,363
Financial assets mandatorily measured at fair value through profit or loss:	
Interest rate swap	1,830,500
Interest rate option	91,378
Spot/forward/swap	15,922,039
Cross currency swap	33,694
Foreign exchange option	356,683
Commodity swap	29,255
Subtotal	18,263,549
Total	$ 26,757,912

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

		December 31, 2017	June 30, 2017
Financial assets held for trading:			
Interest rate instruments:			
Government bonds	$	5,704,661	9,914,637
Corporate bonds		3,163,920	3,675,699
Financial debentures		99,992	-
Subtotal		8,968,573	13,590,336
Derivative financial:			
Interest rate swap		1,766,254	2,051,344
Interest rate option		66,646	57,077
Spot/forward/swap		3,936,287	5,375,679
Cross currency swap		489,106	286,266
Foreign exchange option		561,699	825,465
Commodity swap		126,624	31,511
Subtotal		6,946,616	8,627,342
Total	$	15,915,189	22,217,678

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

		June 30, 2018	December 31, 2017	June 30, 2017
Derivative financial liabilities				
Interest rate swap	$	1,767,954	1,724,803	1,929,937
Interest rate option		-	-	7,033
Spot/forward/swap		11,230,299	4,946,649	5,331,715
Cross currency swap		863,341	25,098	297,926
Foreign exchange option		355,593	561,716	828,601
Commodity swap		29,280	126,638	31,566
Total	$	14,246,467	7,384,904	8,426,778

(d) Financial assets at fair value through other comprehensive income

		June 30, 2018
Financial assets at fair value through other comprehensive income - debt instrument：		
Negotiable certificates of deposit	$	95,845,168
Treasury Bills		12,985,819
Government bonds		59,903,231
Subtotal		168,734,218
Financial assets at fair value through other comprehensive income - equity instrument：		
Nonlisted stock		369,499
Subtotal		369,499
Total	$	169,103,717
The total calculation above includes the revaluation adjustment of hedge items	$	8,655

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STANDARD CHARTERED BANK (TAIWAN) LIMITED
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The above debt instruments invested on December 31 and June 30, 2017 were recorded under available-for-sale financial assets. As the bond investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the bond, they have since been recorded under financial assets at fair value through other comprehensive income upon the application of IFRS 9 starting from January 1, 2018.

Please refer to note 8 for the limitations on the debt instrument at fair value through other comprehensive income; and note 6(ak) for Credit risk and market risk information.

The above debt instrument investments on December 31 and June 30, 2017 were recorded under other financial assets- financial assets at costs. Upon the application of IFRS 9, the debt instrument investments shall be recorded under financial assets at fair value through other comprehensive income starting from January 1, 2018.

As of June 30, 2018, allowance for impairments of the above debt instrument investments was $5,784 thousand, recorded under other comprehensive income.

For the six months ended June 30, 2018, changes in the allowance for impairments of the above debt instrument investments are as follows:

	For the six months ended June 30, 2018				
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment Losses according to IFRS 9 (total)
Beginning balance	$ 4,978	-	-	-	4,978
Financial assets derecognized during the period	(31,553)	-	-	-	(31,553)
New financial assets originated or purchased	32,359	-	-	-	32,359
Ending Balance	$ **5,784**	-	-	-	**5,784**

Changes in the book value of the financial assets at fair value through other comprehensive income-debt instruments mentioned above for the six months ended June 30, 2018 are as follow:

	For the six months ended June 30, 2018				
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment Losses according to IFRS 9 (total)
Beginning balance	$ 185,135,013	-	-	-	185,135,013
Financial assets derecognized during the period	(753,844,213)	-	-	-	(753,844,213)
New financial assets originated or purchased	737,932,747	-	-	-	737,932,747
Foreign currency exchange and other changes	(489,329)	-	-	-	(489,329)
Ending Balance	$ **168,734,218**	-	-	-	**168,734,218**

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Notes to the Financial Statements

(e) Derivative financial instruments for hedging

Derivative financial assets for hedging were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Fair value hedge:			
Interest rate swap	$ -	9,784	19,698
Cash flow hedge:			
Cross currency swap	97,307	-	-
Total	$ 97,307	9,784	19,698

Derivative financial liabilities for hedging were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Fair value hedge:			
Interest rate swap	$ 15,217	1,269	3,108
Cash flow hedge:			
Interest rate swap	-	349	2,673
Cross currency swap	-	42,150	129,906
Total	$ 15,217	43,768	135,687

(i) 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 June 30, 2018, December 31, and June 30, 2017, 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	June 30, 2018	Contract type	June 30, 2018
Financial assets at fair value through other comprehensive income:			
Government bonds	$ 8,655	Interest rate swap	$ (15,217)

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	June 30, 2017	Contract type	June 30, 2017
Available-for-sale financial assets:			
Government bonds	$ 362	Interest rate swap	$ (2,856)
Financial debentures	(17,493)	Interest rate swap	19,446
	$ (17,131)		$ 16,590

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For the six months ended June 30, 2018 and 2017, net losses on the hedging derivative financial instruments listed above amounted to $15,086 thousand and $10,503 thousand, respectively, and net gains from the hedged risk of the hedged items amounted to $15,414 thousand and $10,871 thousand, respectively.

(ii) 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.

		Designated hedging instruments		
		Fair value		
Hedged items	Financial instruments designated as hedging instruments	June 30, 2018	December 31, 2017	June 30, 2017
Discounts and loans—floating interest rate	Interest rate swap	$ 97,307	-	-
Discounts and loans—floating interest rate	Cross currency swap	-	(349)	(2,673)
Deposits and remittances—fixed interest rate	Cross currency swap	-	(42,150)	(129,906)
Total		$ 97,307	(42,499)	(132,579)

(f) Securities purchased under resell agreements and debt instruments

	June 30, 2018	December 31, 2017	June 30, 2017
Securities purchased under resell agreements	$ 3,329,259	3,356,185	1,641,128
Face value of debt instruments	$ 3,358,957	3,388,782	1,652,175
Interest rate	0.34%~2.05%	0.33%~1.29%	0.10%~1.07%
Last settlement date	107.7.19	107.1.12	106.7.12
Resell price	$ 3,330,420	3,356,710	1,641,375

As of June 30, 2018, allowance for impairments of the above debt sercurities purchased under resell agrreements and instruments was $18 thousand, recorded under sercurities purchased under resell agrreements.

For the six months ended June 30, 2018, changes in the allowance for bad debts of sercurities purchased under resell agrreements and instruments are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 10	-	-	-	-	10	-	10
Financial assets derecognized during the period	(52)	-	-	-	-	(52)	-	(52)
New financial assets originated or purchased	60	-	-	-	-	60	-	60
Ending balance	$ 18	-	-	-	-	18	-	18

(g) Receivables—net

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable factoring	$ 6,482,769	11,880,235	10,307,359
Credit cards accounts receivable	4,742,609	3,787,310	4,082,091
Accounts receivable	702,095	693,261	594,250
Interest receivable	1,493,560	1,814,970	1,634,417
Acceptances receivable	293,628	413,858	313,998
Accounts receivable—related parties	1,130,600	2,484,972	2,032,850
Other	367,900	247,882	217,144
Subtotal	15,213,161	21,322,488	19,182,109
Less: allowance for bad debts	396,184	347,059	241,764
Total	$ 14,816,977	20,975,429	18,940,345

Please refer to note 6(ak) for relating information on credit and market risks.

For the six months ended June 30, 2018, changes in the allowance for bad debts of receivables listed above are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 51,555	7,391	-	277,922	-	336,868	129,242	466,110
Changes due to financial instrument recognition :								
Transferred to lifetime expected credit losses	(6,545)	7,533	-	(988)	-	-	-	-
Transferred to credit impaired financial asset	(3,981)	(12,172)	-	16,153	-	-	-	-
Transferred to 12-months expected credit losses	3,653	(2,605)	-	(1,048)	-	-	-	-
Financial assets derecognized during the period	(23,468)	(2,747)	-	(17,748)	-	(43,963)	-	(43,963)
New financial assets originated or purchased	39,324	1,836	-	25,083	-	66,243	-	66,243

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	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Differences in impairment provisions according to "Regulations of the Procedures for Banking Instiutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	$ -	-	-	-	-	-	(56,795)	(56,795)
Bad-Debt Write offs	(560)	(741)	-	(60,147)	-	(61,448)	-	(61,448)
Foreign currency exchange and other changes	(4,240)	9,948	-	20,329	-	26,037	-	26,037
Ending balance	$ 55,738	8,443	-	259,556	-	323,737	72,447	396,184

For the six months ended June 30, 2018, changes in the book value of receivables are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 14,231,633	2,541,822	-	83,768	-	16,857,223	4,465,265	21,322,488
Changes due to financial instrument recognition：								
Transferred to lifetime expected credit losses	(64,916)	66,101	-	(1,185)	-	-	-	-
Transferred to credit impaired financial asset	(532,203)	(38,111)	-	570,314	-	-	-	-
Transferred to 12-months expected credit losses	927,560	(912,264)	-	(15,296)	-	-	-	-
Financial assets derecognized during the period	(16,191,003)	(3,797,951)	-	(11,064)	-	(20,000,018)	-	(20,000,018)
New financial assets originated or purchased	11,584,850	3,095,632	-	28,567	-	14,709,049	-	14,709,049
Differences in impairment provisions according to "Regulations of the Procedures for Banking Instiutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	(1,430,663)	(1,430,663)
Bad-Debt Write offs	(568)	(840)	-	(60,040)	-	(61,448)	-	(61,448)
Foreign currency exchange and other changes	683,785	(16,413)	-	6,381	-	673,753	-	673,753
Ending balance	$ 10,639,138	937,976	-	601,445	-	12,178,559	3,034,602	15,213,161

Please refer to note 6(h) for changes in allowance for bad debts of receivables for the six months ended June 30, 2017.

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As of December 31 and June 30, 2017, 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		June 30, 2017 Receivables	June 30, 2017 Allowance for bad debts
With objective evidence of impairment	Individual assessment of impairment	$ 221,087	218,492
	Portfolio assessment of impairment	450,048	5,680
Without objective evidence of impairment	Portfolio assessment of impairment	18,510,974	17,592
Total		$ 19,182,109	241,764

(h) Discounts and loans—net

	June 30, 2018	December 31, 2017	June 30, 2017
Bills negotiations and bills and notes discounted	$ 864,820	410,590	460,001
Short-term loans and overdrafts	46,901,592	44,664,250	39,772,118
Short-term secured loans	7,433,408	7,836,299	11,348,992
Medium-term loans	43,291,404	39,023,197	33,910,369
Medium-term secured loans	3,522,892	4,044,137	5,423,143
Long-term loans	6,439,601	6,756,665	7,465,281
Long-term secured loans	166,458,716	164,249,576	161,618,651
Overdue loans	237,559	523,957	491,047
Subtotal	275,149,992	267,508,671	260,489,602
Add: premium adjustments on discounts and loans	18,295	11,743	8,464
Less: allowance for bad debts	4,703,310	4,708,177	4,875,315
Total	$ 270,464,977	262,812,237	255,622,751

Please refer to note 6(ak) for relating information on credit and market risks.

As of June 30, 2018, December 31 and June 30, 2017, the Bank's loan with floating rate mentioned above has adopted interest rate swaps and cross currency swap 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.

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As of June 30, 2018, December 31 and June 30, 2017, the amounts of outstanding loans with interest charges suspended amounted to $237,559 thousand, $523,957 thousand and $491,047 thousand, respectively. The amounts of interest not accrued derived from the aforementioned loans were $7,059 thousand, $7,303 thousand and $5,489 thousand, respectively.

For the six months ended June 30, 2018, changes in the allowance for bad debts of discounts and loans-net are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment Losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 535,352	344,806	-	1,750,161	-	2,630,319	1,938,503	4,568,822
Changes due to financial instrument recognition :								
Transferred to lifetime expected credit losses	(45,892)	60,282	-	(14,390)	-	-	-	-
Transferred to credit impaired financial asset	(3,600)	(117,429)	-	121,029	-	-	-	-
Transferred to 12-months expected credit losses	326,702	(318,334)	-	(8,368)	-	-	-	-
Financial assets derecognized during the period	(49,213)	(45,445)	-	(111,749)	-	(206,407)	-	(206,407)
New financial assets originated or purchased	177,139	31,707	-	56,119	-	264,965	-	264,965
Differences in impairment provisions according to "Regulations of the Procedures for Banking Instiutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	465,508	465,508
Bad-Debt Write offs	(13)	(2,559)	-	(338,869)	-	(341,441)	-	(341,441)
Foreign currency exchange and other changes	(457,913)	276,440	-	133,336	-	(48,137)	-	(48,137)
Ending balance	$ 482,562	229,468	-	1,587,269	-	2,299,299	2,404,011	4,703,310

For the six months ended June 30, 2018, changes in the book values of discounts and loans-net are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 253,090,680	8,363,644	-	6,054,347	-	267,508,671		267,508,671
Changes due to financial instrument recognition :								
Transferred to lifetime expected credit losses	(5,474,110)	5,529,290	-	(55,180)	-	-	-	-
Transferred to credit impaired financial asset	(65,285)	(295,507)	-	360,792	-	-	-	-
Transferred to 12-months expected credit losses	5,885,477	(5,833,693)	-	(51,784)	-	-	-	-
Financial assets derecognized during the period	(101,369,420)	(7,541,802)	-	(402,240)	-	(109,313,462)	-	(109,313,462)
New financial assets originated or purchased	124,265,390	4,909,947	-	165,587	-	129,340,924	-	129,340,924
Bad-Debt Write offs	(6)	(2,460)	-	(338,975)	-	(341,441)	-	(341,441)
Foreign currency exchange and other changes	(11,518,571)	(300,417)	-	(225,712)	-	(12,044,700)	-	(12,044,700)
Ending balance	$ 264,814,155	4,829,002	-	5,506,835	-	275,149,992	-	275,149,992

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For the six months ended June 30, 2017, movements of allowance for bad debts of receivables, discounts and loans and other financial assets; and movement of provisions for guarantee liability are disclosed below:

	For the six months ended June 30, 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 and guarantee liability (reversal) provision	(157,992)	579,858	108,805	2,222	532,893
Bad debt recovery	49,435	257,116	-	-	306,551
Less: Write-off	69,434	1,012,421	152,373	-	1,234,228
Exchange rate and others	15,653	149,479	18,677	-	183,809
Ending balance	$ **241,764**	**4,875,315**	**263,936**	**33,480**	**5,414,495**

As of December 31 and June 30, 2017, discounts and loans included in the total amounts of impairment assessment to determine the allowance for bad debts are as follows:

Item		December 31, 2017	
		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

Item		June 30, 2017	
		Discounts and loans	Allowance for bad debts
With objective evidence of impairment	Individual assessment of impairment	$ 2,673,474	1,821,973
	Portfolio assessment of impairment	3,192,223	46,386
Without objective evidence of impairment	Portfolio assessment of impairment	254,623,905	3,006,956
Total		$ 260,489,602	4,875,315

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

(i) Available-for-sale financial assets—net

	December 31, 2017	June 30, 2017
Negotiable certificates of deposit	$ 106,966,306	80,524,789
Treasury bills	-	8,962,922
Government bonds	78,168,707	75,426,184
Total	$ 185,135,013	164,913,895
Marked-to-market adjustments for hedged assets included in the above balance	$ 945	362

Please refer to note 6(d) for details on the recognition of the above underlying investments as finanical assets at fair value through other comprehensive income on June 30, 2018 as a result of the Bank's application of IFRS 9.

(j) Other financial assets

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets carried at cost-net	$ -	127,362	127,362
Restricted assets-debt instruments	7,054,002	7,460,090	7,296,467
Overdue receivable	45,787	50,272	263,936
Less: allowance for bad debts-overdue receivables	45,787	50,272	263,936
Total	$ 7,054,002	7,587,452	7,423,829

Please refer to note 6(d) for the recognition of the unlisted equity commodity as financial assets at fair value through profit or loss on June 30, 2018 as a result of the Bank's application of IFRS 9.

For the six months ended June 30, 2018, changes in the allowance for bad debts of overdue receivables are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ -	-	-	45,213	-	45,213	5,059	50,272
Changes due to financial instrument recognition：								
Financial assets derecognized during the period	-	-	-	(113)	-	(113)	-	(113)

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Notes to the Financial Statements

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Differences in impairment provisions according to "Regulations of the Procedures for Banking Instiutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	10,292	10,292
Bad-Debt Write offs	-	-	-	(15,653)	-	(15,653)	-	(15,653)
Foreign currency exchange and other changes	-	-	-	989	-	989	-	989
Ending balance	$ -	-	-	30,436	-	30,436	15,351	45,787

	December 31, 2017			June 30, 2017		
	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			7,296,467
Overdue receivable			50,272			263,936
Less: allowance for bad debts-overdue receivable			50,272			263,936
			$ 7,587,452			7,423,829

Please refer to note 6(h) for the changes in allowance for bad debts of overdue receivables for the six months ended June 30, 2017.

For the six months ended June 30, 2017, the Bank's dividend income resulting from the financial assets measured at cost recognized was $99 thousand, recorded under other non-interest income.

(k) Property and equipment—net

June 30, 2018	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$ 2,653,772	-	20,632	2,633,140
Buildings	2,762,338	1,235,161	-	1,527,177
Office equipment	430,913	428,153	-	2,760
Leasehold improvements	584,750	475,297	-	109,453
Other equipment	509,717	357,598	-	152,119
Work in progress	39,086	-	-	39,086
Total	$ 6,980,576	2,496,209	20,632	4,463,735

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

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

June 30, 2017	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$ 2,653,772	-	14,236	2,639,536
Buildings	2,780,288	1,196,953	-	1,583,335
Office equipment	457,869	455,402	-	2,467
Leasehold improvements	638,959	575,643	-	63,316
Other equipment	456,500	351,325	-	105,175
Total	$ 6,987,388	2,579,323	14,236	4,393,829

Change in cost movement:

	January 1, 2018	Increase	Decrease	Reclassify	June 30, 2018
Land	$ 2,653,772	-	-	-	2,653,772
Buildings	2,776,918	1,595	16,175	-	2,762,338
Office equipment	453,445	798	23,330	-	430,913
Leasehold improvements	640,675	12,337	68,262	-	584,750
Other equipment	449,012	68,821	8,116	-	509,717
Work in progress	-	39,086	-	-	39,086
Total	$ 6,973,822	122,637	115,883	-	6,980,576

	January 1, 2017	Increase	Decrease	Reclassify	June 30, 2017
Land	$ 2,820,096	-	166,324	-	2,653,772
Buildings	2,986,290	-	206,002	-	2,780,288
Office equipment	466,944	-	9,075	-	457,869
Leasehold improvements	598,713	40,246	-	-	638,959
Other equipment	455,208	10,394	9,102	-	456,500
Total	$ 7,327,251	50,640	390,503	-	6,987,388

Change in accumulated depreciation:

	January 1, 2018	Increase	Decrease	Reclassify	June 30, 2018
Buildings	$ 1,214,261	37,075	16,175	-	1,235,161
Office equipment	450,650	833	23,330	-	428,153
Leasehold improvements	525,350	18,209	68,262	-	475,297
Other equipment	340,173	25,541	8,116	-	357,598
Total	$ 2,530,434	81,658	115,883	-	2,496,209

(Continued)

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Notes to the Financial Statements

	January 1, 2017	Increase	Decrease	Reclassify	June 30, 2017
Buildings	$ 1,245,184	43,243	91,474	-	1,196,953
Office equipment	461,359	2,879	8,836	-	455,402
Leasehold improvements	551,264	24,379	-	-	575,643
Other equipment	339,914	20,513	9,102	-	351,325
Total	$ 2,597,721	91,014	109,412	-	2,579,323

Change in accumulated impairment:

	January 1, 2018	Increase	Decrease	June 30, 2018
Land	$ 20,632	-	-	20,632

	January 1, 2017	Increase	Decrease	June 30, 2017
Land	$ 42,351	-	28,115	14,236

(l) Intangible assets—net

	June 30, 2018	December 31, 2017	June 30, 2017
Goodwill	$ 3,156,048	3,156,048	3,156,048

Change in intangible assets:

	January 1, 2018	Increase	Decrease	June 30, 2018
Goodwill	$ 3,156,048	-	-	3,156,048

	January 1, 2017	Increase	Decrease	June 30, 2017
Goodwill	$ 3,156,048	-	-	3,156,048

(m) Other assets—net

	June 30, 2018	December 31, 2017	June 30, 2017
Refundable deposits	$ 262,643	281,008	285,537
Refundable deposits – derivative financial instruments	3,248,833	708,533	1,223,367
Prepaid fee	265,297	121,369	141,697
Other	12,267	2,694	1,309
Total	$ 3,789,040	1,113,604	1,651,910

As of June 30, 2018, allowance for impairments of the above debt other assets was $76 thousand, recorded under refundable deposits.

(Continued)

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Notes to the Financial Statements

For the six months ended June 30, 2018, changes in the allowance for impairments of other assets are as below:

	For the six months ended June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Impairment losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 12	-	-	-	-	12	-	12
Financial assets derecognized during the period	(218)	-	-	-	-	(218)	-	(218)
New financial assets originated or purchased	282	-	-	-	-	282	-	282
Ending balance	$ 76	-	-	-	-	76	-	76

(n) Deposits from the Central Bank and banks

	June 30, 2018	December 31, 2017	June 30, 2017
Deposits from banks	$ 310,331	751,093	1,061,707
Deposits from banks－affiliates	287,463	1,283,826	1,166,223
Overdrafts on banks	4,813	37,588	41,345
Overdrafts on banks－affiliates	2,737,700	-	525,717
Call loans from banks	10,572,555	11,685,857	3,512,344
Call loans from banks－affiliates	40,346,633	45,334,163	49,831,020
Total	$ 54,259,495	59,092,527	56,138,356

(o) Payables

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts payable	$ 6,342	6,912	26,874
Accrued interest	415,896	363,308	339,180
Accrued expenses	1,542,334	1,948,540	1,447,656
Collection payable	189,984	40,362	49,214
Acceptances payable	293,628	413,858	313,999
Temporary receipts in advance	111,106	60,372	161,867
Unsettled bonds payable	203,447	-	841,385
Other	1,309,739	842,991	689,793
Total	$ 4,072,476	3,676,343	3,869,968

(p) Deposits and remittances

	June 30, 2018	December 31, 2017	June 30, 2017
Checking accounts deposits	$ 3,034,833	2,533,695	1,987,521
Demand deposits:			
Demand deposits	138,487,836	206,692,694	183,591,964
Saving account deposits	126,419,400	126,917,638	127,212,438
Subtotal of demand deposits	264,907,236	333,610,332	310,804,402
Time deposits:			
Time deposits	162,049,434	132,260,271	115,798,446
Time savings deposits	33,217,916	36,838,365	39,236,358
Subtotal of time deposits	195,267,350	169,098,636	155,034,804
Remittances	103,016	167,597	112,218
Total	$ **463,312,435**	**505,410,260**	**467,938,945**

As of December 31 and June 30, 2017, 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.

(q) Financial debentures—net

As of June 30, 2018, December 31 and June 30, 2017, details of financial debentures issued by the Bank were as follows:

Bond	Conditions for issuance	June 30, 2018	December 31, 2017
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%	1,100	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
100-1F	7 year term, interest accrued and paid quarterly, annual interest rate is 1.60%; maturity date: May 19, 2018	-	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
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	6,100,100	5,969,557
		8,102,300	14,522,757
Marked-to-market adjustment on hedged items		-	8,023
Total		$ **8,102,300**	**14,530,780**

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Bond	Conditions for issuance	June 30, 2017
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
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
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
100-1F	7 year term, interest accrued and paid quarterly, annual interest rate is 1.60%; maturity date: May 19, 2018	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
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
103-2	10 year term, USD based, interest accrued and paid semi annually, annual rate is 4.50%; maturity date: December 18, 2024	6,086,993
		14,640,193
Marked-to-market adjustment on hedged items		17,493
Total		$ 14,657,686

(r) Other finanical liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
Structured deposits	$ 1,641,978	1,264,386	776,865

(s) Provisions

	June 30, 2018	December 31, 2017	June 30, 2017
Provision for employee benefits	$ 1,355,797	1,388,865	1,322,644
Provision for decommissioning, restoration and rehabilitation cost	155,299	150,425	140,523
Provision for guarantee liability	33,933	33,210	33,480
Provision for loan commitment	29,374	-	-
Other miscellaneous provisions	11,850	14,895	17,896
Total	$ 1,586,253	1,587,395	1,514,543

Please refer to note 6(h) for changes in guarantee liabilities for the six months ended June 30, 2017.

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For the six months ended June 30, 2018, the movements of book values of guarantee liability and loan commitment are disclosed below:

	June 30, 2018							
	12-months expected credit losses	Lifetime expected credit losses (group evaluation)	Lifetime expected credit losses (individual evaluation)	Lifetime expected credit losses (non-purchased or originated credit impaired financial assets)	Lifetime expected credit losses (purchased or originated credit impaired financial assets)	Losses according to IFRS 9 (total)	Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	Total
Beginning balance	$ 50,248	49,581	-	-	-	99,829	60,915	160,744
Changes due to financial instrument recognition：								
Transferred to lifetime expected credit losses	(2,694)	2,694	-	-	-	-	-	-
Transferred to 12-months expected credit losses	47,925	(47,925)	-	-	-	-	-	-
Financial assets derecognized during the period	(20,062)	(498)	-	-	-	(20,560)	-	(20,560)
New financial assets originated or purchased	26,043	90	-	-	-	26,133	-	26,133
Differences in impairment provisions according to "Regulations of the Procedures for Banking Instiutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	(27,837)	(27,837)
Foreign currency exchange and other changes	(74,187)	(986)	-	-	-	(75,173)	-	(75,173)
Ending balance	$ 27,273	2,956	-	-	-	30,229	33,078	63,307

(t) Other liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
Advance received from customers	$ 1,932,244	27,858	26,519
Deferred income	148,979	98,694	83,566
Guarantee deposits received	26,970	27,658	25,901
Tax payable	588,463	620,731	701,648
Refundable deposits－derivative financial instruments	2,389,782	1,149,472	742,766
Other	747,926	107,820	302,907
Total	$ 5,834,364	2,032,233	1,883,307

(u) Employee benefits

(i) 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 six months ended June 30, 2018 and 2017, the pension expense under defined contribution plan of the Bank amounted to $80,430 thousand and $78,114 thousand, respectively, recorded under operating expenses－employee benefits expense.

(ii) Provision for employee benefits

1) Defined benefit obligation

	June 30, 2018	December 31, 2017	June 30, 2017
Defined benefit plan	$ 1,355,797	1,388,865	1,322,644

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.

2) Recognized as profit and loss cost

For the six months ended June 30, 2018 and 2017, the cost charged to profit or loss were $38,299 thousand and $41,664 thousands, respectively, recorded under operating expenses—employee benefits expense.

3) Primary actuarial assumptions

	For the six months ended June 30	
	2018	2017
Defined benefit plan discount rate	0.90 %	1.00 %
Incremental rate of future compensation levels	3.00 %	3.00 %

(v) Income tax

The President announced the amended Income Tax Act on February 7, 2018, which prescribes that the corporate income tax rate is increased from 17% to 20% in tax year 2018 onwards. The Bank has adjusted the amount of deferred tax assets and liabilities to reflect the impact of tax rate increase on deferred taxes.

For the six months ended June 30, 2018 and 2017, the income tax expense and related accounts were as follows:

	For the six months ended June 30	
	2018	2017
Current income tax expense	$ 7,553	28,307
Deferred income tax expense	235,258	243,506
Income tax expense	$ 242,811	271,813

As of June 30, 2018, December 31 and June 30, 2017, the current tax assets of the Bank amounted to $388,997 thousand, $289,519 thousand and $208,258 thousand, respectively, the current tax liabilities of the Bank amounted to $8,646 thousand, $20,583 thousand and $0 thousand, respectively.

(Continued)

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

	For the six months ended June 30	
	2018	**2017**
Income tax from profit before tax at statutory rate	$ 385,998	255,504
Permanent difference	(14,117)	(291)
Prior-year income tax adjustments	(1,093)	805
Basic income tax	8,646	-
Other adjustments per tax regulation	(136,623)	15,795
Income tax expense	$ **242,811**	**271,813**

For the six months ended, June 30, 2018 and 2017, the components of tax expense (benefit) recognized as other comprehensive income were as follows:

	For the six months ended June 30	
	2018	**2017**
Item that may not to be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit plan	$ **1,412**	**(5,163)**
Items that may be reclassified subsequently to profit or loss:		
Unrealized profit or loss on available-for-sale financial assets	$ -	(26,190)
Unrealized profit or loss on financial assets measured at fair value through other comprehensive income	(1,603)	-
Cash flow hedge	-	7,205
Gains or losses on hedging instruments	1,285	-
Total	$ **(318)**	**(18,985)**

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

	For the six months ended June 30	
	2018	**2017**
Bad debt expense and guarantee liability provision	$ (83,530)	(9,985)
Depreciation expense	(6,984)	(1,820)
Impairment loss on assets	(6,088)	-
Expenses from share-based payments	(5,990)	(3,048)
Employee benefits	(36,464)	5,050
Provisions	(231)	1,002
Deferred income	-	27,114
Loss carryforwards	236,694	199,140
Unrealized interest income on financial assets	21,077	(773)
Amortisation of goodwill	116,774	26,826
	$ **235,258**	**243,506**

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The Bank's temporary difference of deferred tax components, based on the income tax rate for June 30, 2018, December 31 and June 30, 2017 were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Deferred tax assets:			
Bad debt expense and guarantee liability provision	$ 421,777	357,349	388,704
Depreciation expense	35,976	28,992	30,681
Impairment loss on assets	40,588	34,500	34,500
Expenses from share-based payments	45,813	39,823	39,823
Employee benefits	271,157	236,105	224,847
Provisions	15,943	8,442	25,819
Loss carryforwards	542,486	779,180	802,072
Unrealized loss on financial assets measured at fair value through other comprehensive income	3,445	-	-
Loss on hedging instruments	961	-	-
Unrealized loss on available-for-sale financial assets	-	2,417	6,896
Unrealized loss on cash flow hedge	-	2,246	1,075
Total	$ 1,378,146	1,489,054	1,554,417
Deferred tax liabilities:			
Unrealized interest income on financial assets	$ 98,181	77,104	75,450
Amortisation of goodwill	599,649	482,875	456,049
Land value increment tax	120,468	120,468	120,468
Unrealized gain on financial assets measured at fair value through other comprehensive income	1,497	-	-
Unrealized gain on available-for-sale financial assets	-	2,072	536
Total	$ 819,795	682,519	652,503

The movements of deferred tax items were as follows:

	For the six months ended June 30	
	2018	2017
Beginning balance	$ 806,535	1,121,272
The adjustment of beginning balance due to IFRS 9	(11,832)	-
Recognized in current period profit and loss	(235,258)	(243,506)
Recognized in other comprehensive income	(1,094)	24,148
Ending balance	$ 558,351	901,914

(Continued)

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

(w) Stockholders' equity

(i) Capital

As of June 30, 2018, 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.

(ii) 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.

(iii) 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.

(iv) 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.

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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 $10,976 thousands and $835 thousands at 0.5% of the net profit after tax on June 26, 2018 and June 28, 2017.

(v) Other equity interest

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

	Unrealized gains (losses) on available-for-sale financial assets	Gains (loss) on effective portion of cash flow hedges	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Gains (losses) on effective portion of cash flow hedges	Total
January 1, 2018	$ 64,612	(10,967)	-	-	53,645
Effects of retrospective application	(64,612)	10,967	5,969	(10,967)	(58,643)
Balance at January 1, 2018 after adjustment	-	-	5,969	(10,967)	(4,998)
	-	-	-	7,123	7,123
Financial assets at fair value through other comprehensive income					
— Valuation adjustment	-	-	47,808	-	47,808
June 30, 2018	$ -	-	53,777	(3,844)	49,933

	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	88,353	-	88,353
Cash flow hedge			
— Unrealized loss	-	35,178	35,178
June 30, 2017	$ (32,963)	(5,249)	(38,212)

(vi) 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 26, 2018 and June 28, 2017, the board of directors, representing shareholders, approved the distribution of retained earnings and distributed cash dividends for 2017 and 2016 were as follows:

	2017	2016
Legal reserve appropriated	$ 658,542	50,105
Special reserve appropriated	10,976	835
Cash dividends of ordinary share	1,438,793	215,460
Total	$ 2,108,311	266,400

(Continued)

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

(x) Share-based payments

The SC PLC Group operates a number of share-based arrangements for its executive directors and employees. For the six months ended, June 30, 2018 and 2017 and , the share-based payment schemes adopted by the Bank were as follows:

(i) 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:

	For the six months ended June 30	
	2018 Units	**2017 Units**
Beginning balance	324,523	381,569
Less: exercised	-	455
lapsed	50,150	57,270
Ending balance	**274,373**	**323,844**

For the six months ended June 30, 2018 and 2017, the costs of the AESP charged to profits or losses were $2,379 thousand and $3,693 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.

(ii) 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.

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The option movements of the RSA were as follows:

	For the six months ended June 30	
	2018 Units	**2017 Units**
Beginning balance	141,483	133,354
Add: granted	37,505	66,813
dividend	577	-
Less: exercised	50,350	39,949
lapsed	16,781	6,119
Ending balance	**112,434**	**154,099**

For the six months ended June 30, 2018 and 2017, the costs of the RSA charged to profits or losses were $13,189 thousand and $1,146 thousand, respectively, recorded under operating expenses—employee benefits expense.

(iii) 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.

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

	For the six months ended June 30	
	2018 Units	**2017 Units**
Beginning balance	4,580	40,980
Less: exercised	2,859	-
lapsed	885	36,400
Ending balance	**836**	**4,580**

For the six months ended June 30, 2018 and 2017 , the costs of the PSA (PSP) charged to profit or loss were $62 thousand and $324 thousand, respectively, recorded under operating expenses—employee benefits expense.

(iv) 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"); there is no outstanding vested award. 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:

	For the six months ended June 30	
	2018 Units	**2017 Units**
Beginning balance	-	11,905
Less: exercised	-	11,693
lapsed	-	212
Ending balance	-	-

For the six months ended June 30, 2018 and 2017, no related cost of stock warrants was recorded.

(v) Long-term Incentive Plan Awards

Long-term Incentive Plan Awards ("LTIP") are granted with vesting subject to performance measures. Before 2016, 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:

	For the six months ended June 30	
	2018 Units	**2017 Units**
Beginning balance	51,263	51,263
Add: granted	487	-
Ending balance	**51,750**	**51,263**

For the six months ended June 30, 2018 and 2017, no related cost of stock warrants was recorded.

For the six months ended June 30, 2018 and 2017, the vesting of awards granted 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.

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(vi) 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 six month ended June 30, 2018, the cost of the UFSA reversed to profits or losses was $5,918 thousand, recorded under operating expenses—employee benefits expense.

(y) Earnings per share

	For the six months ended June 30	
	2018	**2017**
Net income attributable to common stockholders (after tax)	$ 1,687,178	1,231,154
Common stock (in thousands)	$ 2,910,572	2,910,572
Basic EPS (in dollars)	$ 0.58	0.42

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.

(z) Net interest income

	For the six months ended June 30	
	2018	**2017**
Interest income		
Interest income, discounts and loans	$ 3,393,800	3,349,140
Interest income, accounts receivable factoring	78,500	68,795
Interest income, due from banks	797,390	463,457
Interest income, investment securities	444,924	618,071
Interest income, credit card recurrence	113,384	121,365
Interest income, other	68,661	100,442
Subtotal	4,896,659	4,721,270
Interest expense		
Interest expense, deposits	1,881,480	1,626,940
Interest expense, due to banks	637,423	214,337
Interest expense, financial debentures	159,643	187,068
Interest expense, other	17,626	32,854
Subtotal	2,696,172	2,061,199
Total	$ 2,200,487	2,660,071

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(aa) Net service fee income

	For the six months ended June 30	
	2018	**2017**
Service fee		
Service fee, loan	$ 119,730	41,404
Service fee, agency	2,553	2,618
Service fee, insurance commission	955,460	950,086
Service fee, remittance and interbank	51,738	51,785
Service fee, guarantee, import, export and acceptance payable	30,209	26,914
Service fee, credit card	202,985	138,012
Service fee, trust	1,253,293	1,033,606
Service fee, factoring	3,695	9,764
Service fee, underwriting	181,082	42,123
Service fee, other	100,921	71,528
Subtotal	2,901,666	2,367,840
Service charge		
Service charge, interbank	76,451	76,954
Service charge, agency	63,338	52,861
Service charge, custodian	73,581	66,122
Service charge, other	230,744	57,576
Subtotal	444,114	253,513
Total	$ **2,457,552**	**2,114,327**

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

	For the six months ended June 30	
	2018	**2017**
Gain on disposal		
Interest-rate instruments	$ 2,382	31,727
Derivative financial instruments	196,310	309,268
Subtotal	198,692	340,995
Gain on valuation		
Interest-rate instruments	668	22,672
Derivative financial instruments	1,779,340	15,498
Subtotal	1,780,008	38,170
Interest income	23,250	31,037
Total	$ **2,001,950**	**410,202**

(ac) Realized gain on available-for-sale finanical assets

	For the six months ended June 30, 2017
Profit on sale—debt instruments	$ **351**

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(ad) Realized gain on financial assets at fair value through other comprehensive income

		For the six months ended June 30, 2018
Dividend income - equity instruments	$	247
Profit on sale - debt instruments		10,814
Total	$	11,061

(ae) Net other non-interest income

		For the six months ended June 30	
		2018	2017
Administrative support service income	$	1,587	1,596
Net gain on disposal of assets		-	130,460
Gain on financial assets carried at cost		-	99
Rental income		3,402	4,730
Net gain on fair value hedge		328	368
Other		(1,926)	17,346
Total	$	3,391	154,599

(af) Impairment losses on assets

		For the six months ended June 30	
		2018	2017
Impairment loss—other assets	$	2,500	-
Impairment loss—debt instruments		806	-
Total	$	3,306	-

(ag) Bad debt expense, commitments and guarantee liability provision

		For the six months ended June 30	
		2018	2017
Bad debt expense	$	295,830	530,671
Guarantee liabilities (reversal) provision		(378)	2,222
Reversal of loan commitment		(96,330)	-
Total	$	199,122	532,893

(ah) Employee benefits expense

		For the six months ended June 30	
		2018	2017
Salary expense	$	2,225,358	2,052,457
Employee insurance		158,718	154,239
Pension			
Defined contribution plan		80,430	78,114
Defined benefit plan		38,299	41,664
Other		128,844	119,400
Total	$	2,631,649	2,445,874

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 six months ended June 30, 2018 and 2017 were $193 thousand and $150 thousand, recorded under operating expenses— employee benefits expense. Any difference between the actual and estimated distributed bonus in 2019 shall be treated as changes in accounting estimates and recognized as profit or loss in 2019.

The accrued employee's remuneration of the Bank for the years ended December 31, 2017 and 2016 were $259 thousand and $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 six months ended June 30, 2018 and 2017, the average numbers of the Bank's employees were 3,196 and 3,294, respectively.

(ai) Depreciation and amortisation expenses

	For the six months ended June 30	
	2018	**2017**
Depreciation expense		
Buildings	$ 37,075	43,243
Office equipment	833	2,879
Leasehold improvements	18,209	24,379
Other equipment	25,541	20,513
Total	$ **81,658**	**91,014**

(aj) Other general and administrative expenses

	For the six months ended June 30	
	2018	**2017**
Rental expense	$ 200,400	235,514
Office supplies	38,028	41,046
Postage	103,502	86,434
Repairs and maintenance	93,273	82,173
Advertising expense	91,252	97,207
Utilities fee	30,356	32,996
Taxes	316,549	328,911
Professional service fee	38,663	31,591
Operational and advisory service fee	474,056	605,381
Consulting and technical support service fee	210,274	317,820
Wholesale banking business service fee	60,729	88,794
Building management fee	58,609	60,610
Computer management fee	165,885	108,089
Other	288,886	360,751
Total	$ **2,170,462**	**2,477,317**

(ak) Disclosure of financial instruments

(i) Financial instruments measured at fair value

1) Valuation of financial instruments measured at fair value:

a) Financial assets and liabilities at fair value through profit or loss financial assets at fair value through other comprehensive income (adopted since January 1, 2018), available-for-sale financial assets — net (adopted before January 1, 2018), 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.

b) 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.

2) 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.

3) The definition of fair value hierarchy of financial instruments measured at fair value

a) 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.

b) 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:

i) 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.

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

iii) 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).

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

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

4) Fair value hierarchy information of financial instruments measured at fair value:

	June 30, 2018			
Financial instruments at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Debt instruments	$ 8,494,363	-	8,494,363	-
Financial assets at fair value through other comprehensive income				
Debt instruments	168,734,218	-	168,734,218	-
Equity instruments	369,499	-	-	369,499
Other financial assets－net				
Restricted assets－debt instruments	7,054,002	-	7,054,002	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	18,263,549	68,819	18,194,730	-
Derivative financial assets for hedging－net	97,307	-	97,307	-
Liabilities:				
Financial liabilities at fair value through profit or loss	14,246,467	25,217	14,221,250	-
Derivative financial liabilities for hedging－net	15,217	-	15,217	-

(Continued)

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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	June 30, 2017 Total	Level 1	Level 2	Level 3
Non-derivative financial instruments:				
Assets:				
Financial assets at fair value through profit or loss				
Debt instruments	$ 13,590,336	-	13,590,336	-
Available-for-sale financial assets－net				
Debt instruments	164,913,895	-	164,913,895	-
Other financial assets－net				
Restricted assets－debt instruments	7,296,467	-	7,296,467	-
Derivative financial instruments:				
Assets:				
Financial assets at fair value through profit or loss	8,627,342	17,918	8,609,424	-
Derivative financial assets for hedging－net	19,698	-	19,698	-
Liabilities:				
Financial liabilities at fair value through profit or loss	8,426,778	15,127	8,411,651	-
Derivative financial liabilities for hedging－net	135,687	-	135,687	-

5) For the six months ended June 30, 2018 and 2017, the Bank did not have any transfer of finanical assets measured at fair value between Level 1 and Level 2.

6) The table shows the changes for financial assets measured at fair value classified as Level 3:

Name	Fro the six months ended June 30, 2018 Beginning balance	Profit	Other comprehensive income	Purchased or issued	Transferred out from level 3	Ending balance
Financial assets at fair vlaue through other comprehensive income	$ 266,682	-	102,817	-	-	369,499

7) For fair value of Level 3, the sensitivity analysis that fair value have on reasonable possible substitution assumption.

The Bank is measurement of financial instruments at fair value was reasonable. Only when using different models of valuations would the results of the valuations be different. The effect that the material unobservable inputs used in valuation could have on the valuations of the Level 3 financial instruments are described below.

Sensitivity analysis conducted for those equity investment. Below are the valuation techniques and the range of reasonable changes for the material unobservable inputs that the Bank applied. The impact to other comprehensive income under this assumption is describe below:

	Fair value changes reflected in profit or loss of the period		Fair value changes reflected on other comprehensive income	
	Beneficial changes	**Adverse changes**	**Beneficial changes**	**Adverse changes**
June 30, 2018				
Financial assets at fair value through other comprehensive income-equity instruments	-	-	38,223	(29,401)

8) The quantitative information on significant unobservable inputs (Level 3) used in the fair value measurement

	June 30, 2018				
Item	**Fair value**	**Valuation technique**	**Material unobservable inputs**	**Reasonable change range**	**Correlation between input and fair value**
Financial asset at fair value through other comprehensive income-equity instruments	42,853	Net asset avalue approach	Net asset value	(-0.10%~0.10%)	The higher the net asset value, the higher the fair value
	283,496	Income approach	Discount rate sustainable growth rate	Discount rate is 6.98%~8.98%, Sustainable growth rate is (-0.10%~0.10%)	The higher the discount rate the lower the fair value . The higher the sustainable growth rate, the higher the fair vlaue
	43,150	Asset approach	Unlisted marketability discount	16.03%~26.03%	The higher the unlisted marketability discount rate, the lower the fair vlaue

9) The valuation procedure of fair value attributed to Level 3

The fair value of the level 3 financial instruments of the Bank are valued by independent department and external specialists. Appropriate valuation methods are applied according to the underlying characteristics and data collections. The applied valuation model and related inputs are in accordance with that of the market and the basic principles that the industry approves. The Bank checks the valuation model on a periodic basis. When necessary, the Bank will calibrate and adjust accordingly to ensure the reasonableness of the valuation results, and that they are in line with the market condition.

(ii) Financial instruments measured at amortised cost

1) Valuation of financial instruments measured at amortised cost:

a) 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.

b) 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.

c) 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.

d) 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.

e) Financial assets carried at cost (adopted before January 1, 2018): 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.

f) 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.

g) Financial debentures payables — 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.

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2) Fair value of financial instruments measured at amortised cost:

	June 30, 2018	
Financial assets	**Book value**	**Fair value**
Cash and cash equivalents	$ 18,765,683	18,772,401
Due from the Central Bank and call loans to banks	84,025,675	84,074,889
Securities purchased under resell agreements and debt instruments	3,329,259	3,529,282
Receivables－net	14,816,977	14,816,977
Discounts and loans－net	270,464,977	270,638,116

	December 31, 2017	
Financial assets	**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

	June 30, 2017	
Financial assets	**Book value**	**Fair value**
Cash and cash equivalents	$ 11,192,786	11,192,786
Due from the Central Bank and call loans to banks	116,593,237	116,600,085
Securities purchased under resell agreements and debt instruments	1,641,128	1,721,610
Receivables－net	18,940,345	18,940,345
Discounts and loans－net	255,622,751	255,633,576
Other financial assets－net		
Financial assets carried at cost	127,362	127,362

	June 30, 2018	
Financial liabilities	**Book value**	**Fair value**
Deposits from the Central Bank and banks	$ 54,259,495	54,302,116
Payables	4,072,476	4,072,476
Related parties payable	9,514,945	9,514,945
Deposits and remittances	463,312,435	463,041,948
Financial debentures－net	8,102,300	8,102,300
Other financial liabilities	1,641,978	1,641,978

	December 31, 2017	
Financial liabilities	**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

(Continued)

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Financial liabilities	June 30, 2017	
	Book value	Fair value
Deposits from the Central Bank and banks	$ 56,138,356	56,145,039
Payables	3,869,968	3,869,968
Related parties payable	10,691,992	10,691,992
Deposits and remittances	467,938,945	468,040,244
Financial debentures — net	14,657,686	14,657,686
Other financial liabilities	776,865	776,865

3) Fair value hierarchy information of financial instruments measured at amortised cost:

Financial instruments measured at amortised cost	June 30, 2018				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Non-derivative financial instruments					
Assets:					
Cash and cash equivalents	$ 18,765,683	-	18,772,401	-	18,772,401
Due from the Central Bank and call loans to banks	84,025,675	-	84,074,889	-	84,074,889
Securities purchased under resell agreements and debt instruments	3,329,259	-	3,529,282	-	3,529,282
Receivables — net	14,816,977	-	14,816,977	-	14,816,977
Discounts and loans — net	270,464,977	-	2,500,000	268,138,116	270,638,116
Other financial assets — net					
Liabilities:					
Deposits from the Central Bank and banks	54,259,495	-	54,302,116	-	54,302,116
Payables	4,072,476	-	4,072,476	-	4,072,476
Related parties payable	9,514,945	-	9,514,945	-	9,514,945
Deposits and remittances	463,312,435	-	463,041,948	-	463,041,948
Financial debentures — net	8,102,300	-	8,102,300	-	8,102,300
Other financial liabilities	1,641,978	-	1,641,978	-	1,641,978

Financial instruments measured at amortised cost	December 31, 2017				
		Fair value			
	Book 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	June 30, 2017				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Non-derivative financial instruments					
Assets:					
Cash and cash equivalents	$ 11,192,786	-	11,192,786	-	11,192,786
Due from the Central Bank and call loans to banks	116,593,237	-	116,600,085	-	116,600,085
Securities purchased under resell agreements and debt instruments	1,641,128	-	1,721,610	-	1,721,610
Receivables－net	18,940,345	-	18,940,345	-	18,940,345
Discounts and loans－net	255,622,751	-	-	255,633,576	255,633,576
Other financial assets－net					
Financial assets carried at cost	127,362	-	-	127,362	127,362
Liabilities:					
Deposits from the Central Bank and banks	56,138,356	-	56,145,039	-	56,145,039
Payables	3,869,968	-	3,869,968	-	3,869,968
Related parties payable	10,691,992	-	10,691,992	-	10,691,992
Deposits and remittances	467,938,945	-	468,040,244	-	468,040,244
Financial debentures－net	14,657,686	-	14,657,686	-	14,657,686
Other financial liabilities	776,865	-	776,865	-	776,865

(iii) 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.

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.

1) Market risk

a) 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.

b) 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.

c) 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.

	For the six months ended June 30					
	2018			2017		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Foreign exchange VaR	$ 3,710	7,017	1,228	6,327	13,231	1,894
Interest rate VaR	44,592	50,330	39,553	53,564	64,065	43,411
Total VaR	44,760	50,376	39,649	54,008	65,311	43,546

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.

d) 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.

e) Method used for regulatory capital calculation

Standardized Approach / Delta-Plus for Options.

f) Exchange rate risk exposure information

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

	June 30, 2018			December 31, 2017		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Long position						
USD	$19,523,200	30.501	595,467,370	18,691,183	29.848	557,890,443
CNY	7,341,201	4.611	33,850,153	3,810,556	4.578	17,443,602
EUR	702,703	35.461	24,918,518	805,809	35.690	28,759,253
JPY	81,917,465	0.275	22,565,750	33,517,246	0.265	8,873,235
HKD	2,861,610	3.888	11,124,564	1,531,397	3.819	5,848,896
Short position						
USD	19,477,311	30.501	594,067,714	18,687,982	29.848	557,794,894
CNY	7,309,066	4.611	33,701,977	3,797,477	4.578	17,383,734
EUR	716,491	35.461	25,407,467	806,274	35.690	28,775,841
JPY	81,870,200	0.275	22,552,730	33,543,041	0.265	8,880,064
HKD	2,853,958	3.888	11,094,815	1,526,808	3.819	5,831,369

	June 30, 2017		
	Foreign currency	Exchange rate	NTD
Long position			
USD	$18,990,242	30.435	577,967,320
CNY	8,776,559	4.492	39,427,914
EUR	1,162,932	34.720	40,376,824
JPY	32,809,799	0.272	8,908,907
HKD	7,819,495	3.899	30,485,529
Short position			
USD	18,944,204	30.435	576,566,176
CNY	8,760,875	4.492	39,357,454
EUR	1,163,716	34.720	40,404,051
JPY	33,714,278	0.272	9,154,502
HKD	7,820,883	3.899	30,490,942

(Continued)

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g) Interest rate sensitivity information

i) Interest rate sensitivity analysis (NTD)

June 30, 2018

Item	Day 1 to 90 days	Day 91 to 180 days	Day 181 to 1 Year	Over 1 year	Total
Interest rate sensitive assets	$ 327,345,220	25,632,851	61,656,615	46,067,469	460,702,155
Interest rate sensitive liabilities	232,250,082	16,749,909	17,457,063	3,406,243	269,863,297
Interest rate sensitive gap	95,095,138	8,882,942	44,199,552	42,661,226	190,838,858
Net worth					44,479,542
Ratio of interest rate sensitive assets to liabilities (%)					170.72
Ratio of interest rate sensitive gap to net worth (%)					429.05

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

June 30, 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	$ 344,977,507	15,959,726	39,078,907	60,006,716	460,022,856
Interest rate sensitive liabilities	245,644,138	14,597,990	19,675,440	5,425,034	285,342,602
Interest rate sensitive gap	99,333,369	1,361,736	19,403,467	54,581,682	174,680,254
Net worth					44,003,248
Ratio of interest rate sensitive assets to liabilities (%)					161.22
Ratio of interest rate sensitive gap to net worth (%)					396.97

ii) Interest rate sensitivity analysis (USD)

June 30, 2018 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	$ 2,752,608	506,525	233,804	-	3,492,937
Interest rate sensitive liabilities	5,466,682	783,043	837,945	202,750	7,290,420
Interest rate sensitive gap	(2,714,074)	(276,518)	(604,141)	(202,750)	(3,797,483)
Net worth					(10,066)
Ratio of interest rate sensitive assets to liabilities (%)					47.91
Ratio of interest rate sensitive gap to net worth (%)					37,725.84

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)

June 30, 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	$ 3,561,457	277,857	104,339	550	3,944,203
Interest rate sensitive liabilities	6,533,435	800,477	416,900	203,050	7,953,862
Interest rate sensitive gap	(2,971,978)	(522,620)	(312,561)	(202,500)	(4,009,659)
Net worth					(95,843)
Ratio of interest rate sensitive assets to liabilities (%)					49.59
Ratio of interest rate sensitive gap to net worth (%)					4,183.57

2) Operational risk

a) 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.

b) 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's regional and group business and risk management functions.

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

According to the nature and the 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.

d) 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.

e) Method used for regulatory capital calculation

Basic Indicator Approach.

3) 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 potential loss due to illegality, incompleteness or unfairness, which results in a regulations 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.

4) Credit risk management

a) 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.

i) 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:

1. 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;

2. 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;

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3. 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;

4. 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

5. Competitive Advantage: the Bank seeks competitive advantage through efficient and effective risk management and control.

ii) 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.

b) 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.

c) 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.

(Continued)

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.

d) 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.

(Continued)

e) Method used for regulatory capital calculation

Standardized Approach.

f) 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	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
Other guarantees	$ 3,193,275	3,271,993	2,984,904
Unused amount of irrevocable loan commitments	1,297,919	527,051	400,565
Unused amount of irrevocable letters of credit	2,002,367	1,796,637	1,633,900
Total	$ 6,493,561	5,595,681	5,019,369

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.

g) 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:

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i) By industry

	June 30, 2018	December 31, 2017	June 30, 2017
Individual	$ 181,528,871	177,887,463	172,949,496
Manufacturing	50,852,620	44,258,875	40,879,238
Transportation and warehousing	15,590,731	17,322,363	21,003,966
Commercial	7,625,124	9,645,771	10,411,339
Government	2,500,000	3,500,000	-
Financial industry	9,480,384	9,219,616	8,756,480
Other	7,572,262	5,674,583	6,489,083
Total	$ 275,149,992	267,508,671	260,489,602

ii) By area

	June 30, 2018	December 31, 2017	June 30, 2017
Domestic	$ 240,860,199	237,964,615	226,340,497
Overseas	34,289,793	29,544,056	34,149,105
Total	$ 275,149,992	267,508,671	260,489,602

iii) By collateral

	June 30, 2018	December 31, 2017	June 30, 2017
Unsecured	$ 90,098,111	82,826,631	71,922,313
Secured			
－Real estate	160,697,811	157,477,009	152,752,765
－Movable asset	12,701,358	15,494,988	19,559,492
－Debt instrument	8,654,159	8,857,182	12,647,403
－Other	2,998,553	2,852,861	3,607,629
Total	$ 275,149,992	267,508,671	260,489,602

h) 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, financial assets at fair value through other comprehensive income, 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

i) Credit quality analysis

	June 30, 2018											
	Stage 1				Stage 2				Stage 3			
	Investment grade	Sub-investment grade	High risk grade	Subtotal	Investment grade	Sub-investment grade	High risk grade	Subtotal	Individually impaired	Collectively impaired	Allowance of bad debt	Total
Balance sheet items												
Accounts receivable												
– Accounts receivable factoring	$ 3,733,460	1,853,809	-	5,587,269	626,873	268,627	-	895,500	-	-	64,828	6,417,941
– Credit cards receivable	2,127,516	2,001,871	7,206	4,136,593	-	11,079	9,075	20,154	174,918	410,944	321,127	4,421,482
Discount and loans												
– Consumer banking	149,445,484	25,690,991	569,379	175,705,854	418,604	1,042,842	837,464	2,298,910	745,632	3,089,845	3,211,566	178,628,675
– Wholesale banking	52,161,577	36,932,807	5,130	89,099,514	400,317	2,124,260	-	2,524,577	1,407,009	41,092	1,360,369	91,711,823
– Non-accrual loans	-	-	-	-	-	-	-	-	142,425	95,134	131,375	106,184
Other financial assets												
– Overdue receivable	-	-	-	-	-	-	-	-	45,787	-	45,787	-
Off-balance sheet items												
Loan commitment and guarantees	4,236,880	1,987,986	-	6,224,866	141,377	127,318	-	268,695	-	-	63,307	6,430,254

	December 31, 2017					
				Allowance for bad debts		
	Neither past due nor impaired	Past due but not impaired	Impaired	Individually impaired	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
Financial derivatives credit default receivables	-	-	-	-	-	-
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

	June 30, 2017					
				Allowance for bad debts		
	Neither past due nor impaired	Past due but not impaired	Impaired	Individually impaired	Collectively impaired	Total
Receivables						
Credit cards accounts receivable	$ 3,343,779	78,670	659,642	209,595	22,103	3,850,393
Accounts receivable factoring	10,307,359	-	-	-	-	10,307,359
Financial derivatives credit default receivables	-	-	7,448	7,448	-	-
Discounts and loans						
Consumer banking	166,605,535	2,713,302	4,071,310	954,631	2,530,220	169,905,296
Wholesale banking	85,268,657	36,411	1,794,387	867,342	523,122	85,708,991
Available-for-sale financial assets	164,913,895	-	-	-	-	164,913,895
Other financial assets						
Overdue receivable	-	-	263,936	263,936	-	-
	$ 430,439,225	2,828,383	6,796,723	2,302,952	3,075,445	434,685,934

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Notes to the Financial Statements

ii) Credit quality analysis on neither past due nor 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	$ 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

	June 30, 2017			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 1,274,697	2,042,675	26,407	3,343,779
Accounts receivable factoring	4,688,653	173,812	5,444,894	10,307,359
Discounts and loans				
Consumer banking	143,334,609	22,547,759	723,167	166,605,535
Wholesale banking	18,998,761	37,680,866	28,589,030	85,268,657
Total	$ 168,296,720	62,445,112	34,783,498	265,525,330

iii) 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

(Continued)

	June 30, 2017			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 65	65,231	13,374	78,670
Discounts and loans				
Consumer banking	1,850	1,318,261	1,393,191	2,713,302
Wholesale banking	-	34,379	2,032	36,411
Total	$ 1,915	1,417,871	1,408,597	2,828,383

iv) 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

	June 30, 2017			
	Investment grade	Sub-investment grade	High risk grade	Total
Available-for-sale financial assets				
Debt instruments	$ 164,913,895	-	-	164,913,895

i) 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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

	June 30, 2017				
	Up to 1 month	1-2 months	2-3 months	Over 3 months	Total
Receivables					
Credit cards					
accounts receivable	$ 38,245	16,836	10,528	13,061	78,670
Discounts and loans					
Consumer banking	1,680,869	632,399	244,021	156,013	2,713,302
Wholesale banking	2,232	4,968	19,176	10,035	36,411
Total	$ 1,721,346	654,203	273,725	179,109	2,828,383

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

i) Asset quality of the Bank

Units: in thousands of New Taiwan Dollars, %

Product			Period: June 30, 2018				
			Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio
Wholesale Banking	Secured		25,198	22,349,615	0.11 %	384,428	1,525.63 %
	Unsecured		409,579	70,868,140	0.58 %	1,099,450	268.43 %
Consumer Banking	Mortgage		164,458	132,427,339	0.12 %	2,149,102	1,306.78 %
	Personal loan		97,331	24,800,644	0.39 %	1,035,056	1,063.44 %
	Others	Secured	78,290	22,908,413	0.34 %	33,049	42.21 %
		Unsecured	99	1,795,841	0.01 %	2,225	2,247.47 %
Total			774,955	275,149,992	0.28 %	4,703,310	606.91 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			17,983	4,742,609	0.38 %	321,127	1,785.73 %
Factoring loan receivable without recourse			-	6,482,769	- %	64,828	- %

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	- %

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Notes to the Financial Statements

Product			Period: June 30, 2017 Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio
Wholesale Banking	Secured		9,966	32,947,533	0.03 %	269,951	2,708.72 %
	Unsecured		442,988	54,151,922	0.82 %	1,120,513	252.94 %
Consumer Banking	Mortgage		284,852	126,018,914	0.23 %	2,302,012	808.14 %
	Personal loan		170,605	25,550,266	0.67 %	1,109,415	650.28 %
	Others	Secured	7,760	19,748,363	0.04 %	51,157	659.24 %
		Unsecured	42,187	2,072,604	2.04 %	22,267	52.78 %
Total			958,358	260,489,602	0.37 %	4,875,315	508.72 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			14,075	4,082,091	0.34 %	231,698	1,646.17 %
Factoring loan receivable without recourse			-	10,307,359	- %	-	- %

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

Units: in thousands of New Taiwan Dollars

	June 30, 2018: Loans that may be exempted from reporting as overdue loans	June 30, 2018: Receivables that may be exempted from reporting as overdue receivables	December 31, 2017: Loans that may be exempted from reporting as overdue loans	December 31, 2017: Receivables that may be exempted from reporting as overdue receivables
The amount under inter-bank debt relief program without default by debtors	$ 4,050	13,980	4,466	16,150
The amount under debt discharge program and rehabilitation program without default by debtors	298,479	38,711	280,901	42,738
	$ 302,529	52,691	285,367	58,888

	June 30, 2017: Loans that may be exempted from reporting as overdue loans	June 30, 2017: Receivables that may be exempted from reporting as overdue receivables
The amount under inter-bank debt relief program without default by debtors	$ 5,168	18,679
The amount under debt discharge program and rehabilitation program without default by debtors	309,447	46,939
	$ 314,615	65,618

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

ii) Concentration of corporate credit risk for the bank

Units: in thousands of New Taiwan Dollars, %

June 30, 2018				
Rank	**Industry classification of group enterprise**		**Outstanding credit**	**% of net assets**
1	A Company	Other financial service activities not elsewhere classified	5,490,090	12.43 %
2	B Group	Manufacture of integrated circuits	4,514,517	10.22 %
3	C Group	Air transport	4,334,882	9.82 %
4	D Group	Ocean transportation	3,012,042	6.82 %
5	E Group	Manufacture of cement	2,929,222	6.63 %
6	F Group	Manufacture of other electronic parts and components not elsewhere classified	2,435,035	5.51 %
7	G Group	Manufacture of footwear	2,298,105	5.20 %
8	H Company	Manufacture of other electronic parts and components not elsewhere classified	1,830,030	4.14 %
9	I Company	Manufacture of other electronic parts and components not elsewhere classified	1,830,030	4.14 %
10	J Company	Manufacture of other electronic parts and components not elsewhere classified	1,830,030	4.14 %

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	C Group	Air transport	4,561,277	10.40 %
3	F Group	Manufacture of other electronic parts and components not elsewhere classified	4,329,451	9.88 %
4	K Group	Air transport	3,102,934	7.08 %
5	D Group	Ocean transportation	3,043,884	6.94 %
6	L Group	Investment advisory services	2,941,977	6.71 %
7	G Group	Manufacture of footwear	2,557,243	5.83 %
8	M Group	Manufacture of other electronic parts and components not elsewhere classified	2,548,478	5.81 %
9	N Group	Ocean Transportation	2,303,448	5.25 %
10	O Group	Chemical products not elsewhere classified	1,800,000	4.11 %

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June 30, 2017				
Rank	**Industry classification of group enterprise**		**Outstanding credit**	**% of net assets**
1	A Company	Other financial service activities not elsewhere classified	5,460,441	12.75 %
2	C Group	Air transport	5,119,366	11.95 %
3	P Group	Manufacture of other chemical products not elsewhere classified	4,974,654	11.61 %
4	F Group	Manufacture of other electronic parts and components not elsewhere classified	4,560,078	10.64 %
5	Q Group	Ocean transportation	4,039,955	9.43 %
6	R Company	Manufacture of other non-metallic mineral products not elsewhere classified	3,640,294	8.50 %
7	K Group	Air transport	3,367,422	7.86 %
8	D Group	Ocean transportation	3,200,438	7.47 %
9	B Group	Manufacture of integrated circuits	2,832,843	6.61 %
10	S Group	Air transport	2,020,485	4.72 %

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.

5) Liquidity risk management mechanism

a) 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.

b) 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 $191.1 billion, which is equivalent to 31.46% 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.

c) Financial assets held for liquidity risk management

The Bank holds cash and high quality liquid 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 financial assets at fair value through other comprehensive income.

d) 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.

	June 30, 2018				
	Within 3 months	3 months~ 1 year	1~5 years	Over 5 years	Total
Deposits from the Central Bank and banks	$ 39,434,992	14,824,503	-	-	54,259,495
Payables	4,072,476	-	-	-	4,072,476
Related parties payable	9,514,945	-	-	-	9,514,945
Deposits and remittances	370,877,732	89,001,736	3,432,967	-	463,312,435
Financial debentures	2,200	-	2,000,000	6,100,100	8,102,300
Other financial liabilities	1,558,102	-	83,876	-	1,641,978
Total	$ 425,460,447	103,826,239	5,516,843	6,100,100	540,903,629

	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

	June 30, 2017				
	Within 3 months	3 months~ 1 year	1~5 years	Over 5 years	Total
Deposits from the Central Bank and banks	$ 47,618,156	8,520,200	-	-	56,138,356
Payables	3,869,968	-	-	-	3,869,968
Related parties payable	10,691,992	-	-	-	10,691,992
Deposits and remittances	383,077,316	79,316,264	5,545,365	-	467,938,945
Financial debentures	20,693	6,550,000	2,000,000	6,086,993	14,657,686
Other financial liabilities	681,486	2,552	92,827	-	776,865
Total	$ 445,959,611	94,389,016	7,638,192	6,086,993	554,073,812

e) 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:

STANDARD CHARTERED BANK (TAIWAN) LIMITED
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i) Maturity analysis of net settled derivatives

	June 30, 2018					
	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	$ 256,335	194,812	129,956	56,890	6,991	644,984
—Interest rate derivative instruments	7,979	11,653	28,104	76,511	1,641,674	1,765,921
Derivative financial instruments for hedging						
—Interest rate derivative instruments	-	-	-	-	15,217	15,217
	$ 264,314	206,465	158,060	133,401	1,663,882	2,426,122

	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

	June 30, 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	$ 179,905	201,337	128,691	139,256	3,640	652,829
—Interest rate derivative instruments	9,883	7,116	12,474	119,235	1,788,262	1,936,970
Derivative financial instruments for hedging						
—Interest rate derivative instruments	9	666	-	2,007	3,099	5,781
	$ 189,797	209,119	141,165	260,498	1,795,001	2,595,580

ii) Maturity analysis of gross settled derivatives

	June 30, 2018					
	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	$ 197,526,584	126,128,537	69,811,663	68,839,650	3,099,054	465,405,488
—Cash inflow	193,475,994	122,558,030	67,200,668	65,470,411	2,977,336	451,682,439
Net cash flow	$ (4,050,590)	(3,570,507)	(2,610,995)	(3,369,239)	(121,718)	(13,723,049)

	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)

	June 30, 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	$ 195,742,629	156,083,240	92,815,176	79,300,110	1,686,700	525,627,855
－Cash inflow	194,096,764	154,487,472	91,508,727	77,944,674	1,657,623	519,695,260
Derivative financial instruments for hedging						
－Foreign exchange derivative instruments						
－Cash outflow	-	3,975,474	-	-	-	3,975,474
Net cash flow	$ (1,645,865)	(5,571,242)	(1,306,449)	(1,355,436)	(29,077)	(9,908,069)

f) 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.

	June 30, 2018				
	0~30 days	31~90 Days	91 days~ 1 year	Over 1 year	Total
Other guarantees	$ 39,779	240,739	561,206	2,351,551	3,193,275
Unused amount of irrevocable loan commitments	341,937	683,874	125,105	147,003	1,297,919
Unused amount of irrevocable letters of credit	126,304	99,578	1,776,485	-	2,002,367
	$ 508,020	1,024,191	2,462,796	2,498,554	6,493,561

	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

	June 30, 2017				
	0~30 days	31~90 Days	91 days~ 1 year	Over 1 year	Total
Other guarantees	$ 346,838	857,653	1,228,516	551,897	2,984,904
Unused amount of irrevocable loan commitments	12,951	25,903	4,738	356,973	400,565
Unused amount of irrevocable letters of credit	406,744	1,151,849	75,307	-	1,633,900
	$ 766,533	2,035,405	1,308,561	908,870	5,019,369

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

g) Structure Analysis of Maturity Date New Taiwan Dollars

June 30, 2018

		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	$ 791,673,705	113,172,150	110,249,721	126,470,333	85,348,370	147,607,495	208,825,636
Capital used	884,037,155	80,635,312	103,788,938	205,563,127	142,157,198	91,017,942	260,874,638
Gap	(92,363,450)	32,536,838	6,460,783	(79,092,794)	(56,808,828)	56,589,553	(52,049,002)

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)

June 30, 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	$ 799,387,254	108,419,930	93,193,900	151,653,212	102,288,487	127,711,674	216,120,051
Capital used	891,835,285	72,844,184	101,681,810	210,560,873	115,048,334	117,095,527	274,604,557
Gap	(92,448,031)	35,575,746	(8,487,910)	(58,907,661)	(12,759,847)	10,616,147	(58,484,506)

h) Structure Analysis of Maturity Date US Dollars

June 30, 2018

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	$ 23,166,451	8,020,644	6,943,901	5,213,963	2,350,036	637,907
Capital used	24,117,304	9,593,752	6,287,646	3,362,491	3,170,933	1,702,482
Gap	(950,853)	(1,573,108)	656,255	1,851,472	(820,897)	(1,064,575)

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)

June 30, 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	$ 23,474,668	8,844,755	7,106,637	3,782,790	3,059,358	681,128
Capital used	24,484,039	9,116,204	7,029,793	3,700,556	3,039,715	1,597,771
Gap	(1,009,371)	(271,449)	76,844	82,234	19,643	(916,643)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

(iv) 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:

June 30, 2018						
	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	$ 18,360,856	-	18,360,856	5,246,815	2,389,782	10,724,259
Securities purchased under resell agreements	3,329,259	-	3,329,259	-	3,329,259	-
Total	$ 21,690,115	-	21,690,115	5,246,815	5,719,041	10,724,259

June 30, 2018						
	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 pledged	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 14,261,684	-	14,261,684	5,246,815	3,248,833	5,766,036

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 pledged	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 7,428,672	-	7,428,672	3,071,079	708,533	3,649,060

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

	June 30, 2017					
	Financial assets under net executable settlement contracts or similar agreements					
	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)	Relevant amounts not offset on balance sheet (d): Financial instruments (Note)	Relevant amounts not offset on balance sheet (d): Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial assets	$ 8,647,040	-	8,647,040	4,819,609	742,766	3,084,665
Securities purchased under resell agreements	1,641,128	-	1,641,128	-	1,641,128	-
Total	$ 10,288,168	-	10,288,168	4,819,609	2,383,894	3,084,665

	June 30, 2017					
	Financial liabilities under net executable settlement contracts or similar agreements					
	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)	Relevant amounts not offset on balance sheet (d): Financial instruments (Note)	Relevant amounts not offset on balance sheet (d): Cash collateral pledged	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 8,562,465	-	8,562,465	4,819,609	1,223,367	2,519,489

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

(v) Capital management

1) Summary

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

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

b) To ensure keeping adequate capital to support all the risks surrounding its business, the Bank should take the risk portfolio 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.

2) 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":

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

i) 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, unamortised 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:

1. Common stock and additional paid-in capital in excess of par-common stock
2. Capital collected in advance
3. Capital reserves
4. Legal reserves
5. Special reserves
6. Accumulated profit or loss
7. Non-controlling interests
8. Other items in stockholders' equity

ii) 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.

b) 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

3) Capital adequacy

<table>
<tr><th colspan="3">Item / Period-end</th><th>June 30, 2018</th><th>December 31, 2017</th><th>June 30, 2017</th></tr>
<tr><td rowspan="4">Self-owned capital</td><td colspan="2">Common stock capital</td><td>40,182,035</td><td>39,686,736</td><td>38,665,071</td></tr>
<tr><td colspan="2">Other Tier 1 capital</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Tier 2 capital</td><td>9,536,673</td><td>9,433,516</td><td>9,621,605</td></tr>
<tr><td colspan="2">Total self-owned capital</td><td>49,718,708</td><td>49,120,252</td><td>48,286,676</td></tr>
<tr><td rowspan="9">Risk-weighted assets</td><td rowspan="3">Credit risk</td><td>Standard approach (SA)</td><td>271,100,578</td><td>261,584,019</td><td>268,244,043</td></tr>
<tr><td>Internal ratings-based approach (IRB)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Securitization</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="3">Operational risk</td><td>Basic indicator approach (BIA)</td><td>24,233,455</td><td>24,233,455</td><td>25,195,058</td></tr>
<tr><td>Standardized approach (SA) /alternative approach</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Advanced measurement approach (AMA)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Market risk</td><td>Standardized approach (SA)</td><td>19,399,009</td><td>17,487,767</td><td>17,096,088</td></tr>
<tr><td>Internal model-based approach (IMA)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Total risk-weighted assets</td><td>314,733,042</td><td>303,305,241</td><td>310,535,189</td></tr>
<tr><td colspan="3">Total risk-based capital</td><td>15.80 %</td><td>16.19 %</td><td>15.55 %</td></tr>
<tr><td colspan="3">Ratio of common stock to total risk-based assets</td><td>12.77 %</td><td>13.08 %</td><td>12.45 %</td></tr>
<tr><td colspan="3">Ratio of Tier 1 capital to risk-based assets</td><td>12.77 %</td><td>13.08 %</td><td>12.45 %</td></tr>
<tr><td colspan="3">Leverage ratio</td><td>6.33 %</td><td>5.90 %</td><td>5.76 %</td></tr>
</table>

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

(7) Related-party transactions:

(a) 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	Affiliate
Standard Chartered Global Business Services Sdn Bhd	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

(Continued)

Name	Relationship
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 Qatar ("SCB Qatar")	Affiliate
Standard Chartered Bank Malaysia ("SCB Malaysia")	Affiliate
Standard Chartered Bank UAE ("SCB UAE")	Affiliate
Directors, Supervisors, President and Vice Presidents	The senior management of the Bank
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.

(b) Significant transactions with related parties

(i) Deposits

	June 30, 2018		
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 308,269	0.07	0.00~6.20

	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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

	June 30, 2017		
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 400,344	0.09	0.00~6.80

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 six months ended June 30, 2018 and 2017, interest expenses on the above deposits were $1,078 thousand and $1,461 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, the interest payables on the above transaction were $177 thousand, $239 thousand and $130 thousand, respectively.

For the six months ended June 30, 2018, the time deposit of SCB Hong Kong was $6,100,100 thousand, the interest payable resulting from the above time deposit was $21,236 thousand. For the six months ended June 30, 2018, interest expense resulting from the above transaction was $21,115 thousand.

(ii) Loans

For the six months ended June 30, 2018

Type of loan	Maximum balance during the period	Number of accounts or name of related party	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On-schedule	Overdue		
Employee consumer loans	6,967	15	6,305	6,305	-	Unsecured lending	None
Mortgage	93,038	16	85,727	85,727	-	House	None
Other	3,765	Other individuals	3,462	3,462	-	Overdraft on the comprehensive deposits	None

2017

Type of loan	Maximum balance during the period	Number of accounts or name of related party	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On-schedule	Overdue		
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

For the six months ended June 30, 2017

Type of loan	Maximum balance during the period	Number of accounts or name of related party	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On-schedule	Overdue		
Employee consumer loans	4,819	16	6,736	6,736	-	Unsecured lending	None
Mortgage	143,126	22	171,230	171,230	-	House	None
Other	4,363	Other individuals	4,065	4,065	-	Overdraft on the comprehensive deposits	None

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

For the six months ended June 30, 2018 and 2017, interest income on the above loans were $776 thousand and $920 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, the interest receivables on the above transaction were $68 thousand, $112 thousand and $122 thousand, respectively.

(iii) Foreign exchange and derivative transactions

June 30, 2018

Name	Contracts	Contracts duration period	Notional	Gain (loss) on valuation	Balance sheet Account	Balance sheet Balance
SCB	Interest rate swap	2018.7.3~ 2028.5.8	$ 190,146,255	(38,849)	Financial assets at fair value through profit or loss	262,702
					Financial liabilities at fair value through profit or loss	(326,900)
	Spot/forward/swap	2018.7.2~ 2020.6.15	24,762,816	(662,672)	Financial assets at fair value through profit or loss	270,540
					Financial liabilities at fair value through profit or loss	(425,276)
	Foreign exchange option	2018.7.2~ 2020.6.24	124,504,227	351,750	Financial assets at fair value through profit or loss	87,029
					Financial liabilities at fair value through profit or loss	(269,654)
	Commodity swap	2018,7.3~ 2018.12.4	644,589	115,108	Financial assets at fair value through profit or loss	19,839
					Financial liabilities at fair value through profit or loss	(9,416)
	Cross currency swap	2021.6.8~ 2021.10.4	731,847	17,670	Financial assets at fair value through profit or loss	3,900
					Financial liabilities at fair value through profit or loss	(476)
SCB Singapore	Spot/forward/swap	2018.7.2~ 2019.4.18	38,426,808	214,849	Financial assets at fair value through profit or loss	468,502
					Financial liabilities at fair value through profit or loss	(430,127)
SCB Hong Kong	Spot/forward/swap	2018.7.2~ 2019.2.14	47,140,044	(541,192)	Financial assets at fair value through profit or loss	143,023
					Financial liabilities at fair value through profit or loss	(639,651)

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)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

					December 31, 2017	
		Contracts		Gain (loss) on	Balance sheet	
Name	Contracts	duration period	Notional	valuation	Account	Balance
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)

					June 30, 2017	
		Contracts		Gain (loss) on	Balance sheet	
Name	Contracts	duration period	Notional	valuation	Account	Balance
SCB	Interest rate swap	2017.7.20~ 2027.6.14	$ 206,242,242	72,411	Financial assets at fair value through profit or loss	210,922
					Financial liabilities at fair value through profit or loss	(242,768)
	Spot/forward/swap	2017.7.3~ 2019.12.16	67,102,185	825,131	Financial assets at fair value through profit or loss	339,985
					Financial liabilities at fair value through profit or loss	(388,417)
	Foreign exchange option	2017.7.3~ 2019.1.17	$ 160,110,730	1,716,352	Financial assets at fair value through profit or loss	68,733
					Financial liabilities at fair value through profit or loss	(756,731)
	Commodity swap	2017.7.5~ 2018.2.2	2,667,366	(22,580)	Financial assets at fair value through profit or loss	11,505
					Financial liabilities at fair value through profit or loss	(20,006)
	Interest rate swap (Hedge)	2017.8.7~ 2018.2.20	2,023,928	12,287	Derivative financial liabilities for hedging	(2,673)
SCB Singapore	Spot/forward/swap	2017.7.3~ 2018.6.20	38,955,805	(2,163,061)	Financial assets at fair value through profit or loss	167,784
					Financial liabilities at fair value through profit or loss	(883,821)
SCB Hong Kong	Spot/forward/swap	2017.7.3~ 2018.6.5	55,366,281	206,448	Financial assets at fair value through profit or loss	207,381
					Financial liabilities at fair value through profit or loss	(105,567)
SCB New York	Spot/forward/swap	2017.7.13~ 2017.8.25	1,065,225	77,822	Financial assets at fair value through profit or loss	3,418
					Financial liabilities at fair value through profit or loss	(3,000)

As of June 30, 2018, December 31 and June 30, 2017, the premium receivables resulting from the above option contracts were $12,728 thousand, $10,707 thousand and $3,076 thousand, respectively, recorded under receivables— net; and the premium payables resulting from the above option contracts were $12,608 thousand, $3,468 thousand and $15,535 thousand, respectively, recorded under related parties payable.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

(iv) Deposits with banks — affiliates

	For the six months ended June 30, 2018		
	Balance	Interest rate %	Interest income
SCB Taipei	$ 4,900,000	0.16~0.24	1,929
SCB Japan	1,447,342	-	-
SCB China	1,029,479	0.48	5,831
SCB Hong Kong	251,849	-	-
SCB	200,991	-	-
SCB Singapore	123,592	-	-
SCB New York	58,655	0.97	6,668
SCB Thailand	581	-	-
SCB Philippines	162	-	-
	$ 8,012,651		14,428

	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

	For the six months ended June 30, 2017		
	Balance	Interest rate %	Interest income
SCB Japan	$ 1,623,701	-	-
SCB New York	1,085,465	0.71	3,275
SCB Germany	657,693	-0.50	-
SCB Hong Kong	486,254	-	-
SCB Singapore	195,921	-	-
SCB	80,587	-	-
SCB China	13,490	0.48	1,001
SCB Thailand	696	-	-
SCB Philippines	171		-
	$ 4,143,978		4,276

As of June 30, 2018, December 31 and June 30, 2017, interest receivable resulting from the above deposits with banks to affiliates were $1,929 thousand and $3,973 thousand, respectively. For the six months ended June 30, 2018 and 2017, the service charge from the above deposits were $11,379 thousand and $12,235 thousand, respectively, recorded under net service fee income.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

(v) Call loans to banks－affiliates

	For the six months ended June 30, 2018		
	Balance	**Interest rate %**	**Interest income**
SCB Taipei	$ 36,261,927	-0.21~4.00	291,753
SCB Hong Kong	6,405,105	-0.60~7.60	10,161
SCB	6,100,100	-0.40~2.00	118,534
SCB China	2,872,337	0.20~5.10	3,048
SCB Japan	-	-0.16~2.03	9,037
SCB Thailand	-	-0.45~2.40	376
SCB Korea	-	1.52~1.95	258
SCB Singapore	-	1.70~2.80	77
SCB Germany	-	-0.50	(753)
	$ 51,639,469		432,491

	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

	For the six months ended June 30, 2017		
	Balance	**Interest rate %**	**Interest income**
SCB Taipei	$ 38,334,284	-0.27~4.00	153,204
SCB Korea	1,521,748	1.53~1.82	13,136
SCB Japan	814,596	-0.10	4,167
SCB	-	0.75~1.00	38,433
SCB Hong Kong	-	0.40~1.45	1,077
SCB Thailand	7,188	3.60	81
SCB China	-	3.20	(1)
SCB Singapore	-	-0.26~14.00	(95)
SCB Germany	-	-0.50~0.45	(4,732)
	$ 40,677,816		205,270

As of June 30, 2018, December 31 and June 30, 2017, the interest receivables resulting from the above call loans to banks to affiliates were $122,116 thousand, $144,004 thousand and $52,163 thousand, respectively, recorded under receivables－net.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

(vi) Deposits from banks－affiliates

	For the six months ended June 30, 2018		
	Balance	Interest rate %	Interest expense
SCB Taipei	$ 287,463	0.01	51

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

	For the six months ended June 30, 2017		
	Balance	Interest rate %	Interest expense
SCB Taipei	$ 1,166,223	0.01	54

As of June 30, 2018, December 31 and June 30, 2017, the interest payables resulting from the above deposits from banks to affiliates were $1 thousand, $4 thousand and $3 thousand, respectively, recorded under related parties payable.

(vii) Overdrafts on banks－affiliates

	For the six months ended June 30, 2018		
	Balance	Interest rate %	Interest expense
SCB New York	$ 2,713,883	1.95	802
SCB Germany	23,817	1.50	3,524
SCB Hong Kong	-	6.25	230
SCB China	-	7.21	170
SCB Singapore	-	5.75	9
	$ 2,737,700		4,735

	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

	For the six months ended June 30, 2017		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 525,717	13.25	8
SCB Germany	-	1.50	1,851
SCB New York	-	1.25	52
SCB	-	1.25	20
SCB China	-	8.00	7
	$ 525,717		1,938

As of June 30, 2018, December 31 and June 30, 2017, no interest payables resulting from the above overdrafts on banks to affiliates was recorded.

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Notes to the Financial Statements

(viii) Call loans from banks—affiliates

	For the six months ended June 30, 2018		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 27,822,131	-0.42~6.80	331,967
SCB Japan	8,559,437	0.00~2.80	17,951
SCB Korea	1,830,030	1.47~2.60	15,454
SCB Vietnam	915,015	2.20~2.58	13,215
SCB Macau	640,510	0.05~2.46	6,135
SCB Taipei	579,510	1.45~2.00	13,870
SCB Singapore	-	-0.45~2.33	5,505
SCB	-	-0.40~-0.22	3,250
SCB China	-	1.08~2.00	1,632
	$ 40,346,633		408,979

	2017		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 42,468,776	0.28~2.00	240,157
SCB Vientnam	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

	For the six months ended June 30, 2017		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 25,257,707	0.28~1.66	87,551
SCB Taipei	9,721,050	0.27~1.33	26,745
SCB Singapore	6,086,993	1.30~1.80	3,923
SCB China	3,652,196	0.95~1.50	7,844
SCB Thailand	3,043,496	1.55	11,073
SCB Korea	1,217,399	0.90~1.50	3,158
SCB Macau	852,179	0.91~1.22	5,298
SCB New York	-	1.70	15,279
SCB	-	0.70~1.25	158
	$ 49,831,020		161,029

As of June 30, 2018, December 31 and June 30, 2017, the interest payables resulting from the above call loans from banks to affiliates were $127,243 thousand, $67,057 thousand and $56,682 thousand, respectively, recorded under related parties payable.

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

	Fair value	
Name	**December 31, 2017**	**June 30, 2017**
SCB Hong Kong	-	-

For the six months ended June 30, 2017, the interest income resulting from the above transaction was $227,078 thousand.

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

Name	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
SCB	$ 446,277	238,185	155,005

For the six months ended June 30, 2018 and 2017, the interest income resulting from the above transaction were $2,705 thousand and $420 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, the interest receivable resulting from the above transaction were $426 thousand, $162 thousand and $106 thousand recorded under receivables—net.

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

Name	**Bond (note)**	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
SCB	103-2	$ 6,100,100	5,969,557	6,086,993

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

For the six months ended June 30, 2018 and 2017, the interest expenses on the above transactions were $133,682 thousand and $138,844 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, the interest payables on the above transactions were $9,913 thousand, $10,447 thousand and $11,313 thousand, respectively, recorded under related parties payable.

(xii) Guarantee

	For the six months ended June 30, 2018			
	Maximum balance during the period	Ending balance	Expense	Collateral
SCB Indonesia	$ 12,200	12,200	USD100 (per case)	None

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

	For the six months ended June 30, 2017			
	Maximum balance during the period	Ending balance	Expense	Collateral
SCB Indonesia	$ 12,174	12,174	USD100 (per case)	None

(xiii) For the six months ended June 30, 2018, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $474,056 thousand, $210,274 thousand, and $60,729 thousand, respectively. For the six months ended June 30, 2017, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $605,381 thousand, $317,820 thousand, and $88,794 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, fees payables to SCB were $9,090,485 thousand, $8,144,014 thousand and $10,504,164 thousand, respectively, recorded under related parties payable. For the six months ended June 30, 2018, and 2017, the group insurance expenses for entering the group insurance amounted to $10,664 thousand and $11,800 thousand, respectively. Furthermore, as of June 30, 2018, group insurance expense payable was 10,664 thousand, recorded under related parties payable.

(xiv) For the six months ended June 30, 2018 and 2017, the related cost of the Executive Share Option Scheme amounted to $9,712 thousand and $5,163 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, the estimated accounts payable to SCB for the share-based payment scheme costs amounted to $56,163 thousand, $45,183 thousand and $24,954 thousand, respectively, recorded under related parties payable, the prepaid fee to SCB for the share-based payment scheme costs amounted to $850 thousand, $832 thousand and $848 thousand, respectively, recorded under other assets—net.

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Notes to the Financial Statements

(xv) For the six months ended June 30, 2018 and 2017, expenses resulting from operating and other business related activities with affiliates were as follows:

Name		For the six months ended June 30 2018	2017
Technical support service fees:			
SCB Singapore	$	5,955	3,814
SCB		4,255	1,956
SCB Hong Kong		3,988	6,102
SCB China		151	2,987
SCB India		-	33
Total	$	**14,349**	**14,892**
Information technology service fees:			
Standard Chartered Global Business Services Private Limited	$	49,580	43,281
Standard Chartered Global Business Services Sdn Bhd		59,002	46,895
Total	$	**108,582**	**90,176**
Consultant service income, origination income, and trading income:			
SCB	$	148,444	117,737
SCB Hong Kong		26,949	3,285
SCB China		7,494	3,205
SCB Germany		638	2,039
SCB New York		(8,527)	13,006
Other		2,785	(416)
Total	$	**177,783**	**138,856**
Consultant service fees, origination fees:			
SCB	$	42,358	(33)
SCB Qatar		12,584	-
SCB China		6,835	(3,645)
SCB New York		6,309	-
SCB Philippiness		4,429	610
SCB Korea		4,276	-
SCB Dubai		-	8,869
SCB Singapore		680	5,148
SCB Hong Kong		1,951	2,979
Other		7,867	1,984
Total	$	**87,289**	**15,912**

(Continued)

As of June 30, 2018, December 31 and June 30, 2017, technical support service fees payables and information technology service fees payables were $51,131 thouand, $29,265 thousand and $28,440 thousand, respectively, recorded under related parties payable. As of June 30, 2018, December 31 and June 30, 2017, consultant service income, origination income, and trading income receivables were $326,210 thousand, $275,636 thousand and $115,464 thousand, respectively, recorded under receivables — net. As of June 30, 2018, December 31 and June 30, 2017, consultant service fees, origination fees and trading fees payables were $135,324 thousand, $53,051 thousand and $50,751 thousand, respectively, recorded under related parties payable.

(xvi) 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 six months ended June 30, 2018 and 2017, the rentals were $1,523 thousand and $1,592 thousand, respectively. As of June 30, 2018, December 31 and June 30, 2017, the utility and information system usage income receivables from SCB Taipei were $79 thousand, $71 thousand and $84 thousand, respectively, recorded under receivables — net. For the six tmonths ended June 30, 2018, and 2017, the related recharge from expense allocation were $491 thousand and $461 thousand, respectively.

(xvii) For the six months ended June 30, 2018 and 2017, the administrative support service income from SCB Taipei to the Bank were $1,587 thousand and $1,596 thousand, respectively.

(xviii) The Bank entered into the Exclusivity Fee Sharing Agreement with Standard Chartered Bank Singapore. For the six months ended June 30, 2018 and 2017, the service fee income were $352,242 thousand and $281,249 thousand, respectively, recorded under under net service fee income. As of June 30, 2018, December 31 and June 30, 2017, the service income receivables were $667,044 thousand, $2,050,231 thousand and $1,861,834 thousand, respectively, recorded under receivables — net. Advance service fee income totaled $1,809,526 thousand recorded under other liabilities. (Please refer to note 9 Significant Contingent Liabilities and Unrecognized Contract Commitments — (c) significant service agreements section for related information).

(c) The salary and remuneration of directors and supervisors

	For the six months ended June 30	
	2018	2017
Salary and other short term benefits	$ 156,126	157,248
Post-employment benefit	594	543
Total	$ **156,720**	**157,791**

(8) Pledged assets:

Units: in thousands of New Taiwan Dollars

Pledged assets	Pledged for	Face value June 30, 2018	Face value December 31, 2017	Face value June 30, 2017
Negotiable certificates of deposit, bonds (recorded under other financial assets)	Provision seizures	$ -	2,900	6,600
	USD overdraft clearing deposits	6,500,000	7,000,000	6,835,000
Total		$ 6,500,000	7,002,900	6,841,600

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 June 30, 2018	Face value December 31, 2017	Face value June 30, 2017
Negotiable certificates of deposit, bonds (recorded under other financial assets)	Trust indemnity reserve	$ 150,000	150,000	150,000
	Operating deposits for foreign bond agency business	50,000	50,000	50,000
	Operating deposits for securities underwriting	50,000	50,000	50,000
	Operating deposits for bills business	200,000	100,000	100,000
	Settlement reserves for bond proprietary trading	100,000	100,000	100,000
		550,000	450,000	450,000
Guarantee deposits paid (recorded under other assets)	Operating deposits and settlement reserves for bond proprietary trading	50,300	50,300	50,300
Total		$ 600,300	500,300	500,300

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

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

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

(d) 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.

(e) 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)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED
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(f) Operating deposits for bills business are deposits placed in the Central Bank of the Republic of China for the Bank's bills business.

(g) 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) Commitments and contingencies:

(a) Commitments and contingent liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
Consignment collection for others	$ 5,485,946	5,830,661	6,118,043
Securities, consignments and goods in custody	2,018,845,208	2,376,437,835	2,267,494,650
Trust assets	92,046,133	94,424,876	89,753,350
	$ 2,116,377,287	2,476,693,372	2,363,366,043
Other guarantees	$ 3,193,275	3,271,993	2,984,904
Unused amount of irrevocable loan commitments	$ 1,297,919	527,051	400,565
Unused amount of irrevocable letters of credit	$ 2,002,367	1,796,637	1,633,900

(b) Operating leases

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

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than one year	$ 439,749	431,888	375,563
Later than one year and less than five years	714,514	816,016	1,024,508
Total	$ 1,154,263	1,247,904	1,400,071

(c) 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.

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Notes to the Financial Statements

(d) 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
June 30, 2018

Trust assets			Trust liabilities		
Bank deposits	$	4,967	Accounts payable	$	4
Short-term investments		86,140,640	Tax payable		1
Structured notes		5,208,068	Payables for securities under custody		692,457
Securities under custody		692,457	Trust capital and accumulated earnings		91,353,671
Other assets		1			
Total trust assets	$	**92,046,133**	Total trust liabilities	$	**92,046,133**

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
June 30, 2017

Trust assets			Trust liabilities		
Bank deposits	$	6,054	Accounts payable	$	4
Short-term investments		85,516,624	Tax payable		1
Structured notes		3,420,208	Payables for securities under custody		810,463
Securities under custody		810,463	Trust capital and accumulated earnings		88,942,882
Other assets		1			
Total trust assets	$	**89,753,350**	Total trust liabilities	$	**89,753,350**

Trust income statements

	For the six months ended June 30		
		2018	2017
Trust revenue:			
Interest revenue	$	2,194,919	1,794,906
Common stock cash dividends		142	178
Realized gain on investments		1,248,648	893,421
Unrealized gain on investments		734,810	4,723,599
Net gain on trading of assets		6	-
		4,178,525	7,412,104

	For the six months ended June 30	
	2018	2017
Trust expenses:		
Management expense	$ 24	32
Realized loss on investments	1,026,444	1,251,092
Unrealized loss on investments	5,546,677	1,433,379
Loss on trading of assets	-	28
	6,573,145	2,684,531
Net gain before income tax	(2,394,620)	4,727,573
Income tax expense	-	-
Net gain after income tax	$ (2,394,620)	4,727,573

Schedules of investment for trust business

Investment items	June 30, 2018	December 31, 2017	June 30, 2017
Bank deposits	$ 4,967	5,758	6,054
Short-term investments:			
Bonds	22,225,785	23,170,622	20,600,581
Common stock	4,106,259	3,913,947	3,349,855
Funds	59,808,596	62,391,939	61,566,188
Structured notes	5,208,068	4,319,337	3,420,208
Securities under custody	692,457	623,272	810,463
Other assets	1	1	1
	$ 92,046,133	94,424,876	89,753,350

Foreign currency trust business engaged by the Offshore Banking Unit (OBU) as of June 30, 2018, December 31 and June 30, 2017, were included in the trust balance sheets and schedules of investment for trust business.

(10) Losses Due to Major Disasters:None

(11) Significant Subsequent Events:None

(12) Others:

(a) Profitability

Unit: %

Items		June 30, 2018	December 31, 2017	June 30, 2017
Return on assets	Before income tax	0.61	0.41	0.49
	After income tax	0.54	0.35	0.40
Return on equity	Before income tax	8.77	6.06	7.11
	After income tax	7.67	5.13	5.82
Net profit ratio		24.06	16.31	17.46

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

(Continued)

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(13) Other disclosures items:

For the six months ended June 30, 2018, relevant information of any major transactions that the Bank was required to disclose are as follow:

(a) Related information on significant transactions:

(i) Loans to other parties:None

(ii) Guarantees and endorsements for other parties:None

(iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included):None

(iv) 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

(v) 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

(vi) 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:None

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

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

(ix) Information regarding trading in derivative financial instruments:None

(x) Information regarding selling non performing loans:None

1) Summary table of NPL disposal:None

2) Disposal of a single batch of NPL up to NT$1 billion and information on each transaction:None

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

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

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

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

(In Thousands of New Taiwan Dollars)

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 %	28,275	-	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 %	281,687	-	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 %	8,939	137	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 %	5,639	-	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 %	-	-	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 %	43,150	-	5,000	-	5,000	2.94 %	Note

(Continued)

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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	
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 %	1,809	110	85	-	85	1.42 %	Note

Note: shares held by the Bank remained the same as compared to December 31, 2017.

(c) Information on setting up branches and investing in Mainland China:

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

(ii) 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:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
Notes to the Financial Statements

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:

	For the six months ended June 30, 2018				
	Retail Banking	International Corporates and Financial Institutions Banking	Commercial Banking	Other Banking	Total
Interest income	$ 2,536,520	844,118	282,987	1,233,034	4,896,659
Interest expense	87,908	(514,413)	(44,527)	(2,225,140)	(2,696,172)
Net interest income	2,624,428	329,705	238,460	(992,106)	2,200,487
Net service fee income	1,922,229	509,665	35,493	(9,835)	2,457,552
Other miscellaneous income	260,276	316,741	117,604	1,660,220	2,354,841
Net income	4,806,933	1,156,111	391,557	658,279	7,012,880
Bad debt expense and (provision for) reversal guarantee liabilities	(164,768)	(1,797)	(31,604)	(953)	(199,122)
Operating expense	(3,810,646)	(667,356)	(405,184)	(583)	(4,883,769)
Segment profit or loss	$ **831,519**	**486,958**	**(45,231)**	**656,743**	**1,929,989**
Segment assets	$ **197,853,806**	**92,136,082**	**33,232,762**	**284,368,825**	**607,591,475**
Segment liabilities	$ **310,404,081**	**141,689,956**	**43,951,937**	**67,368,397**	**563,414,371**

	For the six months ended June 30, 2017				
	Retail Banking	International Corporates and Financial Institutions Banking	Commercial Banking	Other Banking	Total
Interest income	$ 2,585,088	808,678	258,386	1,069,118	4,721,270
Interest expense	(30,702)	(464,286)	(37,140)	(1,529,071)	(2,061,199)
Net interest income	2,554,386	344,392	221,246	(459,953)	2,660,071
Net service fee income	1,744,469	338,329	43,159	(11,630)	2,114,327
Other miscellaneous income	230,816	389,231	108,195	1,547,425	2,275,667
Net income	4,529,671	1,071,952	372,600	1,075,842	7,050,065
Bad debt expense and (provision for) reversal guarantee liabilities	(136,328)	1,055	(397,620)	-	(532,893)
Operating expense	(3,816,428)	(624,221)	(476,512)	(97,044)	(5,014,205)
Segment profit or loss	$ **576,915**	**448,786**	**(501,532)**	**978,798**	**1,502,967**
Segment assets	$ **190,161,273**	**107,278,737**	**29,630,387**	**282,459,412**	**609,529,809**
Segment liabilities	$ **287,291,284**	**172,357,189**	**53,749,621**	**53,288,536**	**566,686,630**