Stock Code:2807

Standard Chartered 渣打銀行

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 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 statements of financial position as of December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of the Bank as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 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 Financial Reporting Standards ("IFRs"), International Accounting Standards ("IASs"), International Financial Reporting Interpretations Committee ("IFRICs"), and the Standing Interpretations Committee ("SICs") endorsed by the FSC (hereinafter referred to as "the IFRSs" endorsed by the FSC").

Basis for Opinion

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

Key Audit Matters

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

1. Impairment of loans and receivables

   Refer to note 4(e) "Financial instruments" for the accounting policies of impairment. Refer to note 5(a) "Impairment evaluation of loans and receivables" for the uncertainty of accounting estimates and assumptions for loans and advances impairment. Refer to notes 6(h), (i) and (al) "Information on financial risk" for the description of loans and advances loss provision and impairment assessment.

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, wholesale banking clients have struggled for revenue and profitability against heating up China-US trade friction, increase in global trade and economic uncertainty, as well as intense industry competition, adding 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 statements.

Please refer to notes 6(h) and (i) 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 follow 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 and Regulation Governing Institutions Engaging In Credit Card Business.

2. Valuation of financial instruments

Refer to note 4(e) "Financial instruments" for the accounting policy of financial instruments valuation. Refer to note 5(c)" Valuation of financial instruments" for the uncertainty of accounting estimates and assumption for the financial instruments valuation. Refer to note 6(al) for the fair value hierarchy information 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 at 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 December 31, 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(al) 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 and assessing 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 investments and derivative instruments positions individually, independently verifying the fair value of the selected samples, 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:
  — Assessing 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

Refer to note 4(o) "Income tax" for the accounting policy of deferred tax assets. Refer to note 5(d) "Recognition of deferred tax assets" for the uncertainty of accounting estimates and assumption for the deferred tax assets recognition. Refer to note 6(w) for further description of disclosures on 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(w) for further description of the recognition of deferred tax assets.

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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. Goodwill impairment

Refer to note 4(i) "Intangible assets" for the accounting policy of goodwill impairment. Refer to note 5(e) " Goodwill impairment" for the uncertainty of accounting estimates and assumption for the goodwill impairment. Refer to note 6(m) for further description of disclosures on goodwill.

1) Risk and descriptions of the key audit matter:

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

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

2) Procedures performed:

- Assessing the consistency of key assumptions used by management in impairment test, and assessing the appropriateness of valuation methodology used by management for measuring recoverable amount.
- Taking into account the quality of profit forecast, comparing the inputs used in impairment test with external sources, and performing sensitivity test.

5. Disclosures on related party transactions

Refer to note 7 for further description of 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 transactions.

2) Procedures performed:

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

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

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

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Taipei, Taiwan (Republic of China)
March 25, 2019

Notes to Readers

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

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Balance Sheets

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
11000	Cash and cash equivalents (notes 6(a) and 7)	$ 23,637,632	4	26,535,866	4
11500	Due from the Central Bank and call loans to banks (notes 6(b) and 7)	81,627,972	13	115,118,255	18
12000	Financial assets at fair value through profit or loss (notes 6(c) and 7)	16,331,428	3	15,915,189	2
12100	Financial assets at fair value through other comprehensive income (note 6(d))	162,495,083	26	-	-
12200	Debt instrument investment measured by amortised cost (notes 6(e) and 7)	1,937,067	-	-	-
12300	Financial assets for hedging／Derivative financial assets for hedging (notes 6(f))	247,374	-	9,784	-
12500	Securities purchased under resell agreements and debt instruments (notes 6(a), (g) and 7)	11,738,716	2	3,356,185	1
13000	Receivables – net (note 6(h), (i) and 7)	24,576,560	4	20,975,429	3
13200	Current tax assets (notes 6(w))	448,497	-	289,519	-
13500	Discounts and loans – net (notes 6(f), (i) and 7)	277,484,777	44	262,812,237	41
14000	Available-for-sale financial assets – net (note 6(f), (j) and 7)	-	-	185,135,013	29
15500	Other financial assets – net (notes 6(i), (k), 8 and 13(b))	15,145,361	2	7,587,452	1
18500	Property and equipment – net (notes 6(l) and 13(a))	4,351,057	1	4,422,756	1
19000	Intangible assets – net (note 6(m))	3,258,021	1	3,156,048	-
19300	Deferred tax assets (note 6(w))	1,596,681	-	1,489,054	-
19500	Other assets – net (notes 6(n), 7 and 8)	1,696,566	-	1,113,604	-
	Total assets	$ 626,572,792	100	647,916,391	100

	Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Liabilities:				
21000	Deposits from the Central Bank and banks (notes 6(o) and 7)	$ 36,496,273	6	59,092,527	9
22000	Financial liabilities at fair value through profit or loss (notes 6(c) and 7)	8,105,768	1	7,384,904	1
22300	Financial liabilities for hedging／Derivative financial liabilities for hedging (notes 6(f) and 7)	8,518	-	43,768	-
23000	Payables (note 6(p))	4,790,749	1	3,676,343	1
23100	Related parties payable (note 7)	6,231,122	1	8,353,294	1
23200	Current tax liabilities (note 6(w))	18,611	-	20,583	-
23500	Deposits and remittances (notes 6(f), (q), and 7)	510,768,268	82	505,410,260	79
24000	Financial debentures (notes 6(f), (r), and 7)	8,149,671	1	14,530,780	2
25500	Other financial liabilities (note 6(s))	329,190	-	1,264,386	-
25600	Provisions (notes 6(i), (t) and (v))	1,601,731	-	1,587,395	-
29300	Deferred tax liabilities (note 6(w))	851,943	-	682,519	-
29500	Other liabilities (note 6(u))	4,075,166	1	2,032,233	-
	Total liabilities	581,427,010	93	604,078,992	93
	Equity:				
31101	Common stock (note 6(x))	29,105,720	5	29,105,720	5
31500	Capital surplus (note 6(x))	5,794,771	1	5,794,771	1
	Retained earnings:				
32001	Legal reserve (note 6(x))	7,090,437	1	6,431,895	1
32003	Special reserve (note 6(x))	354,033	-	343,057	-
32005	Unappropriated earnings (note 6(x))	2,756,697	-	2,108,311	-
		10,201,167	1	8,883,263	1
32500	Other equity interest (note 6(x))	44,124	-	53,645	-
	Total equity	45,145,782	7	43,837,399	7
	Total liabilities and equity	$ 626,572,792	100	647,916,391	100

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017		Change
		Amount	%	Amount	%	%
41000	**Interest income (notes 6(aa) and 7)**	$ 10,320,477	77	9,605,338	72	7
51000	**Less：Interest expense (notes 6(aa) and 7)**	6,264,170	47	4,275,089	32	47
	Net interest income	4,056,307	30	5,330,249	40	(24)
	Net non-interest income					
49100	Net service fee income (notes 6(ab) and 7)	4,474,787	34	4,457,844	33	-
49200	Gain on financial assets or liabilities at fair value through profit or loss (notes 6(ac) and 7)	3,280,060	25	1,460,296	11	125
49300	Realized gain on available-for-sale financial assets (note 6(ad))	-	-	9,061	-	(100)
49310	Realized gain on financial assets at fair value through other comprehensive income(note 6(ae))	28,053	-	-	-	-
49600	Foreign exchange gain	1,640,157	12	2,042,932	15	(20)
49700	Impairment losses on assets(note)	(124,377)	(1)	(6,396)	-	(1,845)
49800	Net other non-interest income (notes 6(f), (k), (af) and 7)	1,727	-	168,261	1	(99)
	Net revenue	13,356,714	100	13,462,247	100	(1)
58200	Bad debt expense, commitment and guarantee liability provision (notes 6(i) and (ah))	630,050	5	768,347	6	(18)
	Operating expenses:					
58500	Employee benefits expenses (notes 6(v), (y), (ai) and 7)	5,197,854	39	5,058,352	38	3
59000	Depreciation and amortisation expenses (notes 6(l), (m) and (aj))	172,722	1	153,182	1	13
59500	Other general and administrative expenses (notes 6(ak) and 7)	4,547,926	34	4,891,674	36	(7)
	Total operating expenses	9,918,502	74	10,103,208	75	(2)
	Income before tax	2,808,162	21	2,590,692	19	8
61003	Less: income tax expenses (note 6(w))	84,743	1	395,552	3	(79)
	Profit	2,723,419	20	2,195,140	16	24
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(v))	(59,336)	-	(104,614)	(1)	43
65204	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income (note 6(x))	120,844	1	-	-	-
65220	Income tax benefit related to items that may not be reclassified subsequently to profit or loss (note 6(w))	14,026	-	17,785	-	(21)
	Total items that may not to be reclassified subsequently to profit or loss	75,534	1	(86,829)	(1)	187
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(x))	-	-	165,753	1	(100)
65303	Change in fair value of cash flow hedges recognized (note 6(x))	-	-	35,494	-	(100)
65309	Equity instruments valuation profit or loss measured at fair value through other comprehensive income (note 6(x))	(76,971)	(1)	-	-	-
65310	Impairment reversal on investments in debt instruments measured at fair value through other comprehensive income (note 6(ag))	(1,017)	-	-	-	-
65305	Gains (losses) on hedging instrument (note 6(x))	3,032	-	-	-	-
65320	Income tax benefit related to items that may be reclassified subsequently to profit or loss (note 6(w))	3,234	-	14,141	-	(77)
	Total items that may be reclassified subsequently to profit or loss	(71,722)	(1)	215,388	1	(133)
65000	**Other comprehensive income, net of tax**	3,812	-	128,559	-	(97)
	Total comprehensive income	$ 2,727,231	20	2,323,699	16	17
	Basic earnings per share(NTD) (note 6(z))	$ 0.94		0.75		

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

	Share capital		Retained earnings				Other items in stockholders' equity			
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	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(x))	-	-	50,105	-	(50,105)	-	-	-	-	-
Special reserve (note 6(x))	-	-	-	835	(835)	-	-	-	-	-
Cash dividends of ordinary share (note 6(x))	-	-	-	-	(215,460)	-	-	-	-	(215,460)
Net income	-	-	-	-	2,195,140	-	-	-	-	2,195,140
Other comprehensive income	-	-	-	-	(86,829)	-	185,928	29,460	-	128,559
Total comprehensive income	-	-	-	-	2,108,311	-	185,928	29,460	-	2,323,699
Balance at December 31, 2017	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(x))	-	-	658,542	-	(658,542)	-	-	-	-	-
Special reserve (note 6(x))	-	-	-	10,976	(10,976)	-	-	-	-	-
Cash dividends of ordinary share (note 6(x))	-	-	-	-	(1,438,793)	-	-	-	-	(1,438,793)
Net income	-	-	-	-	2,723,419	-	-	-	-	2,723,419
Other comprehensive income	-	-	-	-	(45,310)	46,300	-	-	2,822	3,812
Total comprehensive income	-	-	-	-	2,678,109	46,300	-	-	2,822	2,727,231
Balance at December 31, 2018	**$ 29,105,720**	**5,794,771**	**7,090,437**	**354,033**	**2,756,697**	**52,269**	**-**	**-**	**(8,145)**	**45,145,782**

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan Dollars)

		2018	2017
Cash flows from (used in) operating activities:			
Profit before tax	$	2,808,162	2,590,692
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation expense		166,216	153,182
Amortisation expense		6,506	-
Bad debt expense, commitment and guarantee liability provision		630,050	768,347
Interest expense		6,264,170	4,275,089
Interest income		(10,320,477)	(9,605,338)
Net change in other provisions		(157,891)	(1,738)
Gain on disposal of property and equipment		-	(130,460)
Impairment losses on assets		124,377	6,396
Total adjustments to reconcile profit (loss)		(3,287,049)	(4,534,522)
Changes in operating assets and liabilities:			
Changes in operating assets:			
Due from the Central Bank and call loans to banks		2,493,530	(5,639,492)
Financial assets at fair value through profit or loss		(416,325)	10,615,490
Financial assets at fair value through other comprehensive income		22,945,035	-
Decrease in investments in debt instruments measured at amortised cost		(1,937,067)	-
Receivables		(3,720,576)	(1,704,015)
Discounts and loans		(15,117,967)	3,570,463
Available-for-sale financial assets		-	(27,088,982)
Other financial assets		(7,665,326)	6,794,261
Total changes in operating assets		(3,418,696)	(13,452,275)
Changes in operating liabilities:			
Deposits from the Central Bank and banks		(22,596,254)	27,680,472
Financial liabilities at fair value through profit or loss		720,864	(7,497,935)
Payables		(1,350,386)	(1,948,185)
Deposits and remittances		5,358,008	12,803,327
Other financial liabilities		(935,196)	231,113
Other liabilities		2,042,933	277,602
Total changes in operating liabilities		(16,760,031)	31,546,394
Total changes in operating assets and liabilities		(20,178,727)	18,094,119
Total adjustments		(23,465,776)	13,559,597
Cash outflow generated from operations		(20,657,614)	16,150,289
Interest received		10,241,090	9,100,165
Interest paid		(5,921,550)	(4,178,114)
Income taxes paid		(178,468)	(51,614)
Net Cash flows used in operating activities		(16,516,542)	21,020,726
Cash flows used in investing activities:			
Acquisition of property and equipment		(217,362)	(148,131)
Proceeds from disposal of property and equipment		-	383,436
Increase in derivatives collateral		(472,255)	(175,203)
Proceeds from disposal of intangible assets		(108,479)	-
(Increase) decrease in other assets		(113,354)	369,567
Net cash flows used in investing activities		(911,450)	429,669
Cash flows used in financing activities:			
(Decrease) increase in financial instruments for hedging/ derivative financial instruments for hedging		(272,380)	149,037
Decrease in financial debentures		(6,551,000)	(1,000,000)
Cash dividends paid		(1,438,793)	(215,460)
Net cash flows used in financing activities		(8,262,173)	(1,066,423)
Change in foreign exchange rate		177,914	(487,129)
Net (decrease) increase in cash and cash equivalents		(25,512,251)	19,896,843
Cash and cash equivalents at beginning of period		116,225,381	96,328,538
Cash and cash equivalents at end of period	$	**90,713,130**	**116,225,381**
Composition of cash and cash equivalents:			
Cash and cash equivalents reported in the statement of financial position	$	23,637,632	26,535,866
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		55,336,782	86,333,330
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7		11,738,716	3,356,185
Cash and cash equivalents at end of period	$	**90,713,130**	**116,225,381**

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the years ended December 31, 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 December 31, 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).

(Continued)

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 March 25, 2019.

(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

(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 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 chosen to continue the application of hedge accounting requirements of IAS 39 as its accounting policy.

(Continued)

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	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

(Continued)

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.

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

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 value	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	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 9)					
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)					
Classified to financial assets at fair value through other comprehensive income (IFRS 9)		-	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 endorsed by FSC but not yet effective

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

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.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Bank can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment 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.

2) Transition

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

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The Bank plans to apply the modified retrospective on transition to IFRS 16, 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 select, 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.

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

(Continued)

- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Bank will have to recognize the new assets and liabilities for the operating leases of its offices, branches, ATMs and main trading system server. On January 1, 2019, the Bank estimated that the right-of-use assets and the lease liabilities to increase by $1,988,459 thousand and $1,971,868 thousand, respectively. Also, the Bank is not required to make any adjustments for leases where the Bank is the intermediate lessor in a sub-lease.

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

(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 International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
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
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Bank will evaluate the impact of the abovementioned standards or interpretations on its financial position and financial performance.

(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 and International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), International Financial Reporting Interpretations Committee ("IFRICs"), and the Standing Interpretations Committee ("SICs") endorsed by the FSC (hereinafter referred to as "the IFRSs endorsed by the FSC").

(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:

(Continued)

(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 (adopted before January 1 2018);

(iv) Financial instruments for hedging at fair value;

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

(vi) Net defined benefit liability represents the difference between plan assets 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.

(Continued)

1) Financial assets measured at amortised cost

a) Debt instrument investment measured by 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.

b) 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.

c) 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. Collections after written 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.

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 value. 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 Bank assesses whether the financial assets have been credit impaired on the reporting date. The financial assets have 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.

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 months 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(al) for Information on financial risks for the Bank's judgment on whether the credit risk has significantly increased after initial recognition and prospective adjustments.

(Continued)

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 financial 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.

(Continued)

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.

(Continued)

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 must be notified for acknowledgement. Collections after written 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.

(Continued)

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.

(Continued)

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 and hedging accounting

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

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

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

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.

(Continued)

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.

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.

(Continued)

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.

(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.

(Continued)

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.

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.

(Continued)

(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 undistributed 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.

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. Please refer to note 6(al) for detailed information of primary assumption used for fair value of financial instruments of such assumption.

(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(i) 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(w) 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(m) for further description of goodwill recognition.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 3,464,926	3,811,025
Checks for clearing	109,863	84,480
Deposits with other banks	4,452,856	12,445,306
Deposits with other banks—affiliates	15,610,062	10,195,055
Subtotal	23,637,707	26,535,866
Less: allowance for bad debts	75	-
Total	$ 23,637,632	26,535,866

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents reported in the statement of balance sheets	$ 23,637,632	26,535,866
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	55,336,782	86,333,330
Securities purchased under resell agreements and debt instruments qualifying for cash and cash equivalents under the definition of IAS 7	11,738,716	3,356,185
Cash and cash equivalents reported in the statement of cash flows	$ 90,713,130	116,225,381

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

For the year ended December 31, 2018 changes in the allowance for bad debts of cash and cash equivalents are as below:

	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	(705)	(14)	-	-	-	(719)	-	(719)
New financial assets originated or purchased	1,368	46	-	-	-	1,414	-	1,414
Foreign currency exchange and other changes	(892)	(19)	-	-	-	(911)	-	(911)
Ending balance	$ 75	-	-	-	-	75	-	75

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

	December 31, 2018	December 31, 2017
Required reserve—checking account	$ 6,198,363	9,694,604
Required reserve—demand account	11,111,655	11,155,771
Required reserve—foreign currency	245,899	208,934
Required reserve—settlement account	1,506,088	1,519,654
Call loans to banks	22,443,194	32,265,692
Call loans to banks—affiliates	40,122,773	55,010,147
Trade finance receivables	-	5,263,453
Total	$ 81,627,972	115,118,255

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 year ended December 31, 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).

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

(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:

	December 31, 2018
Designation as financial assets at fair value through profit or loss:	
Government bonds	$ 6,975,343
Corporate bonds	1,559,691
Subtotal	8,535,034
Financial assets mandatorily measured at fair value through profit or loss:	
Interest rate swap	1,825,915
Interest rate option	103,898
Spot/forward/swap	5,460,247
Cross currency swap	150,972
Foreign exchange option	255,362
Subtotal	7,796,394
Total	$ 16,331,428

	December 31, 2017
Financial assets held for trading:	
Interest rate instruments:	
Government bonds	$ 5,704,661
Corporate bonds	3,163,920
Financial debentures	99,992
Subtotal	8,968,573
Derivative financial:	
Interest rate swap	1,766,254
Interest rate option	66,646
Spot/forward/swap	3,936,287
Cross currency swap	489,106
Foreign exchange option	561,699
Commodity swap	126,624
Subtotal	6,946,616
Total	$ 15,915,189

(Continued)

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

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

		December 31, 2018	December 31, 2017
Derivative financial liabilities			
Interest rate swap	$	1,797,086	1,724,803
Interest rate option		4,108	-
Spot/forward/swap		5,845,608	4,946,649
Cross currency swap		204,826	25,098
Foreign exchange option		254,140	561,716
Commodity swap		-	126,638
Total	$	8,105,768	7,384,904

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

		December 31, 2018
Debt instrument:		
Negotiable certificates of deposit	$	97,513,252
Treasury Bills		999,728
Government bonds		63,595,061
Subtotal		162,108,041
Equity instrument:		
Non-listed stock		387,042
Subtotal		387,042
Total	$	162,495,083
The total calculation above includes the revaluation adjustment of hedge items	$	6,396

The above debt instruments invested on December 31, 2017 was 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 6(al) for credit risk and market risk information.

The above debt instrument investments on December 31, 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.

For the year ended December 31, 2018, dividend income of the above debt instrument investments was $16,435 thousand, recorded under realized gain on financial assets at fair value through other comprehensive income.

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

For the year ended December 31, 2018, changes in the allowance for impairments of the above debt instrument investments are as follows:

	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	(63,832)	-	-	-	(63,832)
New financial assets originated or purchased	62,815	-	-	-	62,815
Ending Balance	$ 3,961	-	-	-	3,961

Changes in the book value of the financial assets at fair value through other comprehensive income-debt instruments mentioned above for the year ended December 31, 2018 are as follow:

	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	(1,287,084,753)	-	-	-	(1,287,084,753)
New financial assets originated or purchased	1,263,544,362	-	-	-	1,263,544,362
Foreign currency exchange and other changes	513,419	-	-	-	513,419
Ending Balance	$ 162,108,041	-	-	-	162,108,041

(e) Amortized cost financial assets

	December 31, 2018
Government bonds	$ 1,937,067

(f) Financial instruments for hedging

Financial assets for hedging/ derivative financial assets for hedging were as follows:

	December 31, 2018	December 31, 2017
Fair value hedge:		
Interest rate swap	$ -	9,784
Cash flow hedge:		
Cross currency swap	247,374	-
Total	$ 247,374	9,784

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

Financial liabilities for hedging/ derivative financial liabilities for hedging were as follows:

	December 31, 2018	December 31, 2017
Fair value hedge:		
Interest rate swap	$ 8,518	1,269
Cash flow hedge:		
Interest rate swap	-	349
Cross currency swap	-	42,150
Total	$ 8,518	43,768

(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 December 31, 2018 and 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	December 31, 2018	Contract type	December 31, 2018
Financial assets at fair value through other comprehensive income:			
Government bonds	$ 6,396	Interest rate swap	$ (8,518)

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

For the years ended December 31, 2018 and 2017, net losses on the hedging financial instruments listed above amounted to $12,971 thousand and $20,703 thousand, respectively, and net gains from the hedged risk of the hedged items amounted to $15,240 thousand and $22,246 thousand, respectively.

(ii) Cash flow hedge

The Bank currently holds floating rate loans and fixed rate 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Hedged items	Financial instruments designated as hedging instruments	Fair value December 31, 2018	Fair value December 31, 2017
Discounts and loans – floating interest rate	Cross currency swap	$ 247,374	-
Discounts and loans – floating interest rate	Interest rate swap	-	(349)
Deposits and remittances – fixed interest rate	Cross currency swap	-	(42,150)
Total		$ 247,374	(42,499)

(g) Securities purchased under resell agreements and debt instruments

	December 31, 2018	December 31, 2017
Securities purchased under resell agreements	$ 11,738,716	3,356,185
Face value of debt instruments	$ 11,848,111	3,388,782
Interest rate	0.40%~2.65%	0.33%~1.29%
Last settlement date	108.1.22	107.1.12
Resell price	$ 11,741,474	3,356,710

For the year ended December 31, 2018, allowance for impairments of the above debt securities purchased under resell agreements and instruments was $63 thousand, recorded under securities purchased under resell agreements.

For the year ended December 31, 2018, changes in the allowance for bad debts of securities purchased under resell agreements and instruments are as below:

	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	(190)	-	-	-	-	(190)	-	(190)
New financial assets originated or purchased	243	-	-	-	-	243	-	243
Ending balance	$ 63	-	-	-	-	63	-	63

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Notes to the Financial Statements

(h) Receivables—net

	December 31, 2018	December 31, 2017
Accounts receivable factoring	$ 15,315,482	11,880,235
Credit cards accounts receivable	4,740,800	3,787,310
Accounts receivable	670,803	693,261
Interest receivable	1,854,547	1,814,970
Acceptances receivable	1,048,000	413,858
Accounts receivable－related parties	882,854	2,484,972
Other	554,455	247,882
Subtotal	25,066,941	21,322,488
Less: allowance for bad debts	490,381	347,059
Total	$ 24,576,560	20,975,429

Please refer to note 6(al) for relating information on credit risk and market risk.

For the year ended December 31, 2018, changes in the allowance for bad debts of receivables listed above are as below:

	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	(13,679)	15,942	-	(2,263)	-	-	-	-
Transferred to credit impaired financial asset	(4,604)	(27,264)	-	31,868	-	-	-	-
Transferred to 12-months expected credit losses	7,521	(5,984)	-	(1,537)	-	-	-	-
Financial assets derecognized during the period	(41,406)	(5,981)	-	(33,370)	-	(80,757)	-	(80,757)
New financial assets originated or purchased	72,108	3,291	-	46,524	-	121,923	-	121,923
Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	45,687	45,687
Bad-Debt Write offs	(767)	(1,552)	-	(114,363)	-	(116,682)	-	(116,682)
Foreign currency exchange and other changes	(7,378)	20,914	-	40,564	-	54,100	-	54,100
Ending balance	$ 63,350	6,757	-	245,345	-	315,452	174,929	490,381

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For the year ended December 31, 2018, changes in the book value of receivables are as below:

	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	(4,301,628)	4,304,101	-	(2,473)	-	-	-	-
Transferred to credit impaired financial asset	(532,343)	(82,339)	-	614,682	-	-	-	-
Transferred to 12-months expected credit losses	3,934,558	(3,919,093)	-	(15,465)	-	-	-	-
Financial assets derecognized during the period	(52,226,444)	(7,587,849)	-	(40,687)	-	(59,854,980)	-	(59,854,980)
New financial assets originated or purchased	57,337,799	5,759,115	-	59,338	-	63,156,252	-	63,156,252
Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	(2,485,850)	(2,485,850)
Bad-Debt Write offs	(767)	(1,552)	-	(114,363)	-	(116,682)	-	(116,682)
Foreign currency exchange and other changes	2,550,999	514,358	-	(19,644)	-	3,045,713	-	3,045,713
Ending balance	$ 20,993,807	1,528,563	-	565,156	-	23,087,526	1,979,415	25,066,941

Please refer to note 6(i) for changes in allowance for bad debts of receivables for the year ended December 31, 2017.

As of December 31, 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	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

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Notes to the Financial Statements

(i) Discounts and loans—net

	December 31, 2018	December 31, 2017
Bills negotiations and bills and notes discounted	$ 1,283,594	410,590
Short-term loans and overdrafts	42,282,793	44,664,250
Short-term secured loans	6,663,986	7,836,299
Medium-term loans	45,726,084	39,023,197
Medium-term secured loans	3,360,990	4,044,137
Long-term loans	8,342,852	6,756,665
Long-term secured loans	174,162,652	164,249,576
Overdue loans	429,658	523,957
Subtotal	282,252,609	267,508,671
Add: premium adjustments on discounts and loans	53,559	11,743
Less: allowance for bad debts	4,821,391	4,708,177
Total	$ 277,484,777	262,812,237

Please refer to note 6(al) for relating information on credit risk and market risk.

As of December 31, 2018 and 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.

As of December 31, 2018 and 2017, the amounts of outstanding loans with interest charges suspended amounted to $429,658 thousand and $523,957 thousand, respectively. The amounts of interest not accrued derived from the aforementioned loans were $8,102 thousand and $7,303 thousand, respectively.

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For the year ended December 31, 2018, changes in the allowance for bad debts of discounts and loans-net are as below:

	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	(93,248)	124,195	-	(30,947)	-	-	-	-
Transferred to credit impaired financial asset	(4,583)	(280,816)	-	285,399	-	-	-	-
Transferred to 12-months expected credit losses	588,162	(570,805)	-	(17,357)	-	-	-	-
Financial assets derecognized during the period	(114,328)	(98,300)	-	(187,857)	-	(400,485)	-	(400,485)
New financial assets originated or purchased	416,827	40,563	-	122,421	-	579,811	-	579,811
Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	498,823	498,823
Bad-Debt Write offs	(6)	(2,460)	-	(602,508)	-	(604,974)	-	(604,974)
Foreign currency exchange and other changes	(720,437)	697,009	-	202,822	-	179,394	-	179,394
Ending balance	$ 607,739	254,192	-	1,522,134	-	2,384,065	2,437,326	4,821,391

For the year ended December 31, 2018, changes in the book values of discounts and loans-net are as below:

	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	(12,453,894)	12,559,374	-	(105,480)	-	-	-	-
Transferred to credit impaired financial asset	(219,948)	(700,571)	-	896,148	-	(24,371)	-	(24,371)
Transferred to 12-months expected credit losses	10,353,656	(10,258,505)	-	(95,151)	-	-	-	-
Financial assets derecognized during the period	(235,665,111)	(9,878,949)	-	(1,014,835)	-	(246,558,895)	-	(246,558,895)
New financial assets originated or purchased	283,258,784	7,022,074	-	367,013	-	290,647,871	-	290,647,871
Bad-Debt Write offs	(6)	(2,460)	-	(602,508)	-	(604,974)	-	(604,974)
Foreign currency exchange and other changes	(27,624,667)	(974,535)	-	(116,491)	-	(28,715,693)	-	(28,715,693)
Ending balance	$ 270,739,494	6,130,072	-	5,383,043	-	282,252,609	-	282,252,609

(Continued)

For the year ended December 31, 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:

	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	(162,355)	898,757	29,993	1,952	768,347
Bad debt recovery	93,105	476,280	-	-	569,385
Less: Write-off	143,425	1,444,602	281,293	-	1,869,320
Exchange rate and others	(124,326)	422,499	24,609	-	322,782
Ending balance	$ 347,059	4,708,177	50,272	33,210	5,138,718

As of December 31, 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	December 31, 2017 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

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

	December 31, 2017
Negotiable certificates of deposit	$ 106,966,306
Government bonds	78,168,707
Total	$ 185,135,013
Marked-to-market adjustments for hedged assets included in the above balance	$ 945

Please refer to note 6(d) for details on the recognition of the above underlying investments as financial assets at fair value through other comprehensive income on December 31, 2018 as a result of the Bank's application of IFRS 9.

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(k) Other financial assets

	December 31, 2018	December 31, 2017
Financial assets carried at cost-net	$ -	127,362
Restricted assets-debt instruments	15,145,361	7,460,090
Overdue receivable	30,327	50,272
Less: allowance for bad debts-overdue receivables	30,327	50,272
Total	$ 15,145,361	7,587,452

Please refer to note 6(d) for the recognition of the unlisted equity commodity as financial assets at fair value through other comprehensive income on December 31, 2018 as a result of the Bank's application of IFRS 9.

For the year ended December 31, 2018, changes in the allowance for bad debts of overdue receivables are as below:

	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	-	-	-	(134)	-	(134)	-	(134)
Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	2,389	2,389
Bad-Debt Write offs	-	-	-	(15,712)	-	(15,712)	-	(15,712)
Foreign currency exchange and other changes	-	-	-	(6,488)	-	(6,488)	-	(6,488)
Ending balance	$ -	-	-	22,879	-	22,879	7,448	30,327

	December 31, 2017		
	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
Financial Information Service Co., Ltd.	1.14	45,500	45,500
TSC Bio Venture Management, Inc.	5.00	8,505	8,505
Universal Venture Investment, Inc.	4.76	7,949	7,949
Windance Co., Ltd.	2.73	188,500	188,500
Taiwan Asset Service Corporation	2.94	50,000	50,000
Yang Guang Asset management Company	1.42	849	849
Subtotal		330,303	330,303
Less: accumulated impairment		-	202,941
		$ 330,303	127,362
Restricted assets-debt instruments			7,460,090
Overdue receivable			50,272
Less: allowance for bad debts-overdue receivable			50,272
			$ 7,587,452

(Continued)

Please refer to note 6(i) for the changes in allowance for bad debts of overdue receivables for the year ended December 31, 2017.

For the year ended December 31, 2017, the Bank's dividend income resulting from the financial assets measured at cost recognized was $15,669 thousand, recorded under other non-interest income.

(l) Property and equipment—net

December 31, 2018	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$ 2,653,772	-	83,975	2,569,797
Buildings	2,774,228	1,280,824	59,502	1,433,902
Office equipment	355,850	350,322	-	5,528
Leasehold improvements	607,366	479,402	-	127,964
Other equipment	525,748	347,323	-	178,425
Work in progress	35,441	-	-	35,441
Total	$ 6,952,405	2,457,871	143,477	4,351,057

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

Change in cost movement:

	January 1, 2018	Increase	Decrease	Reclassify	December 31, 2018
Land	$ 2,653,772	-	-	-	2,653,772
Buildings	2,776,918	1,595	16,965	12,680	2,774,228
Office equipment	453,445	4,507	102,102	-	355,850
Leasehold improvements	640,675	39,127	72,436	-	607,366
Other equipment	449,012	124,012	47,276	-	525,748
Work in progress	-	48,121	-	(12,680)	35,441
Total	$ 6,973,822	217,362	238,779	-	6,952,405

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

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Notes to the Financial Statements

Change in accumulated depreciation:

	January 1, 2018	Increase	Decrease	Reclassify	December 31, 2018
Buildings	$ 1,214,261	83,527	16,964	-	1,280,824
Office equipment	450,650	1,775	102,103	-	350,322
Leasehold improvements	525,350	26,488	72,436	-	479,402
Other equipment	340,173	54,426	47,276	-	347,323
Total	$ 2,530,434	166,216	238,779	-	2,457,871

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

Change in accumulated impairment:

	January 1, 2018	Increase	Decrease	December 31, 2018
Land	$ 20,632	63,343	-	83,975
Buildings	-	59,502	-	59,502
Total	$ 20,632	122,845	-	143,477

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

(m) Intangible assets—net

	December 31, 2018	December 31, 2017
Goodwill	$ 3,156,048	3,156,048
Other	101,973	-
Total	$ 3,258,021	3,156,048

Change in intangible assets:

	January 1, 2018	Increase	Decrease	December 31, 2018
Goodwill	$ 3,156,048	-	-	3,156,048
Other	-	108,479	6,506	101,973
Total	$ 3,156,048	108,479	6,506	3,258,021

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

(Continued)

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

(n) Other assets—net

	December 31, 2018	December 31, 2017
Refundable deposits	$ 260,504	281,008
Refundable deposits—derivative financial instruments	1,180,788	708,533
Prepaid fee	245,768	121,369
Other	9,506	2,694
Total	$ 1,696,566	1,113,604

As of December 31, 2018, allowance for impairments of the above debt other assets was $9 thousand, recorded under refundable deposits.

For the year ended December 31, 2018, changes in the allowance for impairments of other assets are as below:

	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	(429)	-	-	-	-	(429)	-	(429)
New financial assets originated or purchased	426	-	-	-	-	426	-	426
Ending balance	$ 9	-	-	-	-	9	-	9

(o) Deposits from the Central Bank and banks

	December 31, 2018	December 31, 2017
Deposits from banks	$ 109,675	751,093
Deposits from banks—affiliates	211,519	1,283,826
Overdrafts on banks	6,902	37,588
Overdrafts on banks—affiliates	45,561	-
Call loans from banks	-	11,685,857
Call loans from banks—affiliates	36,122,616	45,334,163
Total	$ 36,496,273	59,092,527

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Notes to the Financial Statements

(p) Payables

	December 31, 2018	December 31, 2017
Accounts payable	$ 17,918	6,912
Accrued interest	605,832	363,308
Accrued expenses	1,890,062	1,948,540
Collection payable	63,374	40,362
Unsettled bonds payable	364,726	-
Acceptances payable	1,048,000	413,858
Temporary receipts in advance	27,318	60,372
Other	773,519	842,991
Total	$ **4,790,749**	**3,676,343**

(q) Deposits and remittances

	December 31, 2018	December 31, 2017
Checking accounts deposits	$ 2,271,306	2,533,695
Demand deposits:		
Demand deposits	154,934,454	206,692,694
Saving account deposits	126,343,265	126,917,638
Subtotal of demand deposits	281,277,719	333,610,332
Time deposits:		
Time deposits	195,972,625	132,260,271
Time savings deposits	31,022,509	36,838,365
Subtotal of time deposits	226,995,134	169,098,636
Remittances	224,109	167,597
Total	$ **510,768,268**	**505,410,260**

As of December 31, 2018, 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.

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Notes to the Financial Statements

(r) Financial debentures

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

Bond	Conditions for issuance	December 31, 2018	December 31, 2017
91-1A	5 year term, interest accrued and paid semiannually, 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 semiannually, 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 semiannually, 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 semiannually, annual rate is 4.50%; maturity date: December 18, 2024	6,147,471	5,969,557
		8,149,671	14,522,757
Marked-to-market adjustment on hedged items		-	8,023
Total		$ 8,149,671	14,530,780

(s) Other financial liabilities

	December 31, 2018	December 31, 2017
Structured deposits	$ 329,190	1,264,386

(t) Provisions

	December 31, 2018	December 31, 2017
Provision for employee benefits	$ 1,347,503	1,388,865
Provision for decommissioning, restoration and rehabilitation cost	149,273	150,425
Provision for guarantee liability	48,392	33,210
Provision for loan commitment	48,549	-
Other miscellaneous provisions	8,014	14,895
Total	$ 1,601,731	1,587,395

For the year ended December 31, 2018, the movements of book values of guarantee liability and loan commitment are disclosed below:

	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	(2,802)	2,802	-	-	-	-	-	-
Transferred to 12-months expected credit losses	12,286	(12,286)	-	-	-	-	-	-
Financial assets derecognized during the period	(32,743)	(2,860)	-	(1)	-	(35,604)	-	(35,604)
New financial assets originated or purchased	80,273	193	-	1	-	80,467	-	80,467
Differences in impairment provisions according to "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans"	-	-	-	-	-	-	(13,135)	(13,135)
Foreign currency exchange and other changes	(58,541)	(36,872)	-	-	-	(95,413)	-	(95,413)
Ending balance	$ 48,721	558	-	-	-	49,279	47,780	97,059

Please refer to note 6(i) for changes in guarantee liabilities for the year ended December 31, 2017.

(u) Other liabilities

	December 31, 2018	December 31, 2017
Advance received from customers	$ 1,820,623	27,858
Derivatives collateral	1,317,955	1,149,472
Tax payable	451,572	620,731
Deferred income	185,449	98,694
Guarantee deposits received	24,775	27,658
Other	274,792	107,820
Total	$ 4,075,166	2,032,233

(v) 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 years ended December 31, 2018 and 2017, the pension expense under defined contribution plan of the Bank amounted to \$161,765 thousand and \$157,013 thousand, respectively, recorded under operating expenses—employee benefits expense.

(Continued)

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

(ii) Provision for employee benefits

1) Defined benefit obligation

	December 31, 2018	December 31, 2017
Defined benefit plan	$ 1,347,503	1,388,865

The reconciliation between present value of defined benefits obligation and fair value of defined benefits plan assets was disclosed below:

	December 31, 2018	December 31, 2017
Present value of defined benefits obligation	$ 2,567,446	2,550,155
Less: fair value of defined benefits plan assets	1,219,943	1,161,290
Liability recognized in balance sheets	$ 1,347,503	1,388,865

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) The percentage of plan assets were as follows:

Unit: %

	December 31, 2018	December 31, 2017
Cash	18.90	18.00
Stocks	53.50	50.80
Short-term notes	4.70	3.20
Bonds	22.90	28.00
Total	100.00	100.00

3) Change in defined benefit obligation

The change in defined benefit obligation for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
DBO at beginning of period	$ 2,550,155	2,532,742
Current service cost and interest cost	87,796	98,943
Remeasurements of the net defined benefit liabilities		
Actuarial loss (gain)−experience changes	75,183	32,498
Actuarial loss (gain)−financial assumption changes	22,539	68,235
Benefits paid from plan assets	(111,381)	(105,142)
Benefits paid directly by the Bank	(56,846)	(77,121)
DBO at end of period	$ 2,567,446	2,550,155

(Continued)

4) Change in plan assets

The change in defined benefit plan assets for the years ended December 31, 2018 and 2017 were as follows:

		2018	2017
Fair value of plan assets beginning of period	$	1,161,290	1,210,764
Interest income		11,197	15,616
Remeasurements of the net defined benefit assets			
Actuarial loss-return on plan assets (exclude interest)		37,344	(3,881)
Employers contributions		121,493	43,933
Benefit paid from plan assets		(111,381)	(105,142)
Fair value of plan assets at end of period	$	**1,219,943**	**1,161,290**

5) Change in asset ceiling

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

6) Recognized as profit and loss cost

The recognized as profit and loss cost for the years ended December 31, 2018 and 2017, were as follows:

		2018	2017
Current service cost	$	63,260	67,253
Net interest on the net defined benefit liabilities		13,339	16,074
	$	**76,599**	**83,327**

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

Recognized as other comprehensive income of remeasurements of defined benefit plan for the years ended December 31, 2018 and 2017 were as follows:

		2018	2017
Cumulated surplus at beginning of period	$	73,901	(30,713)
Recognized in current period		59,336	104,614
Cumulated surplus at end of period	$	**133,237**	**73,901**

8) Primary actuarial assumptions

	2018	2017
Defined benefit plan discount rate	0.90 %	1.00 %
Incremental rate of future compensation levels	3.00 %	3.00 %

The estimated payment of the Bank's employer contribution to its defined benefit plan is amount to $125,137 thousand and $46,609, which is expected to be paid within a year of its balance sheet date in 2018 and 2017.

Weighted average duration of the defined benefit obligation is 8.6 years.

STANDARD CHARTERED BANK (TAIWAN) LIMITED
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9) The sensitivity analysis

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

As of December 31, 2018 and 2017 the effects of changes in actuarial assumptions on the present value of defined benefit obligation were as follows:

	Effect on DBO	
	0.50% Increase	**0.50% Decrease**
December 31, 2018		
Discount rate	(107,197)	114,760
Salary increase rate	113,526	(107,098)
December 31,2017		
Discount rate	(109,522)	117,486
Salary increase rate	116,196	(109,391)

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

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

(w) 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 years ended December 31, 2018 and 2017, the income tax expense and related accounts were as follows:

	2018	2017
Current income tax expense	$ 17,518	48,889
Deferred income tax expense	67,225	346,663
Income tax expense	$ 84,743	395,552

As of December 31, 2018 and 2017, the current tax assets of the Bank amounted to $448,497 thousand and $289,519 thousand, respectively, and the current tax liabilities of the Bank amounted to $18,611 thousand and $20,583 thousand, respectively.

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

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

		2018	2017
Income tax from profit before tax at statutory rate	$	561,632	440,418
Permanent difference		(21,360)	(81,776)
Prior-year income tax adjustments		(1,093)	805
Basic income tax		18,611	20,583
Other adjustments per tax regulation		(473,047)	15,522
Income tax expense	$	84,743	395,552

For the years ended December 31, 2018 and 2017, the components of tax benefit recognized as other comprehensive income were as follows:

		2018	2017
Item that may not to be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plan	$	(14,026)	(17,785)
Items that may be reclassified subsequently to profit or loss:			
Unrealized profit or loss on available-for-sale financial assets	$	-	(20,175)
Unrealized profit or loss on financial assets measured at fair value through other comprehensive income		(3,444)	-
Cash flow hedge		-	6,034
Gains or losses on hedging instruments		210	-
Total	$	(3,234)	(14,141)

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

		2018	2017
Bad debt expense and guarantee liability provision	$	(103,580)	21,370
Depreciation expense		(6,539)	(131)
Impairment loss on assets		22,599	-
Expenses from share-based payments		(5,990)	(3,048)
Employee benefits		(19,367)	6,414
Deferred income		-	27,114
Provisions		(2,887)	18,379
Loss carryforwards		12,312	222,032
Unrealized interest income on financial assets		34,967	881
Amortisation of goodwill		135,710	53,652
	$	67,225	346,663

(Continued)

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Notes to the Financial Statements

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

		December 31, 2018	December 31, 2017
Deferred tax assets:			
Bad debt expense and guarantee liability provision	$	441,808	357,349
Depreciation expense		35,531	28,992
Impairment loss on assets		11,901	34,500
Expenses from share-based payments		45,813	39,823
Employee benefits		269,498	236,105
Provisions		18,618	8,442
Loss carryforwards		766,868	779,180
Unrealized loss on financial assets measured at fair value through other comprehensive income		4,608	-
Loss on hedging instruments		2,036	-
Unrealized loss on available-for-sale financial assets		-	2,417
Unrealized loss on cash flow hedge		-	2,246
Total	$	**1,596,681**	**1,489,054**
Deferred tax liabilities:			
Unrealized interest income on financial assets	$	112,071	77,104
Amortisation of goodwill		618,585	482,875
Land value increment tax		120,468	120,468
Unrealized gain on financial assets measured at fair value through other comprehensive income		819	-
Unrealized gain on available-for-sale financial assets		-	2,072
Total	$	**851,943**	**682,519**

The movements of deferred tax items were as follows:

		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		(67,225)	(346,663)
Recognized in other comprehensive income		17,260	31,926
Ending balance	$	**744,738**	**806,535**

The income tax returns of the prior years have been assessed up to the year 2016.

(x) Stockholders' equity

(i) Capital

As of December 31, 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.

The board of directors approved the distribution of the 2017 and 2016 earnings on June 26, 2018 and June 28, 2017, amounting to $658,542 thousand and $50,105 thousand, respectively.

(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.

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.

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(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)
	-	-	-	2,822	2,822
Financial assets at fair value through other comprehensive income					
－Valuation adjustment	-	-	46,300	-	46,300
December 31, 2018	$ -	-	52,269	(8,145)	44,124

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

(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

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

(y) Share-based payments

The SC PLC Group operates a number of share-based arrangements for its executive directors and employees. For the years ended, December 31, 2018 and 2017, 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 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:

	2018 Units	2017 Units
Beginning balance	324,523	381,569
Add: granted	147,189	42,771
Less: exercised	40,184	455
lapsed	84,503	99,362
Ending balance	**347,025**	**324,523**

For the years ended December 31, 2018 and 2017, the costs of the AESP charged to profits or losses were $4,999 thousand and $7,141 thousand, respectively, recorded under operating expenses—employee benefits expense.

Options under the AESP are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors.

The fair value per option granted and the assumptions used in the calculation are as follows:

	2018
Grant date	October 2
Share price at grant date	£ 6.16
Exercise price	£ 5.13
Vesting period (years)	3
Expected volatility (%)	33.80
Expected option life (years)	3.33
Risk-free rate (%)	0.87
Expected dividend yield (%)	5.00
Fair value	£ 1.39

	2017
Grant date	October 3
Share price at grant date	£ 7.71
Exercise price	£ 6.20
Vesting period (years)	3
Expected volatility (%)	34.90
Expected option life (years)	3.33
Risk-free rate (%)	0.47
Expected dividend yield (%)	1.87
Fair value	£ 2.32

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

(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.

The option movements of the RSA were as follows:

	2018 Units	2017 Units
Beginning balance	141,483	133,354
Add: granted	37,505	70,061
dividend	890	-
Less: exercised	56,836	55,399
lapsed	17,083	6,533
Ending balance	**105,959**	**141,483**

For the years ended December 31, 2018 and 2017, the costs of the RSA charged to profits or losses were $22,674 thousand and $10,916 thousand, respectively, recorded under operating expenses—employee benefits expense.

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The fair value for deferred awards which are not granted to Material Risk Takers ("MRTs") is based on 100 percent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends. For award granted to MRTs in 2018, the fair value of awards takes into account the lack of dividend equivalents, calculated by reference to market consensus dividend yield.

	2018					
Grant date	November 28		October 2		June 18	
Share price at grant date	£ 6.11		£ 6.16		£ 7.12	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1	5.00	5.82	5.00	5.86	5.00	6.78, 6.45
2	5.00	5.54	5.00	5.58	5.00	6.45, 6.15
2/3	5.00	5.41	-	-	-	-
3	5.00	5.28	5.00	5.32	5.00	6.15, 5.85
4	-	-	5.00	5.06	5.00	5.57
5	-	-	5.00	4.82	-	-

	2018	
Grant date	March 9	
Share price at grant date	£ 7.78	
Vesting period (years)	Expected dividend yield (%)	Fair value (£)
1	5.00	7.41
2	5.00	7.06
3	5.00	6.72
4	5.00	6.40
5	5.00	6.10

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

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

(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:

	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 years ended December 31, 2018 and 2017 , the costs of the PSA (PSP) charged to profits or losses were $272 thousand and $314 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:

	2018 Units	2017 Units
Beginning balance	-	11,905
Less: exercised	-	11,693
lapsed	-	212
Ending balance	-	-

For the years ended December 31, 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:

	2018 Units	2017 Units
Beginning balance	51,263	51,263
Add: granted	827	-
Ending balance	52,090	51,263

For the years ended December 31, 2018 and 2017, no related cost of stock warrants was recorded.

	2018	
Grant date	March 9	March 9
Share price at grant date	£ 7.78	£ 7.78
Vesting period (years)	3/4/5/6/7	3/4/5/6/7
Expected dividend yield (%)	5.00	5.00
Fair value (RoE)	£ 2.59	£ 2.59
Fair value (TSR)	£ 1.14	£ 1.11
Fair value (Strategic)	£ 2.59	£ 2.59

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

For the years ended December 31, 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 years ended December 31, 2018 and 2017, the cost of the UFSA reversed and charged to profits or losses were $1,192 thousand and $7,667 thousand, respectively, recorded under operating expenses—employee benefits expense.

(z) Earnings per share

	2018	2017
Net income attributable to common stockholders (after tax)	$ 2,723,419	2,195,140
Common stock (in thousands)	$ 2,910,572	2,910,572
Basic EPS (in dollars)	$ 0.94	0.75

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.

(aa) Net interest income

	2018	2017
Interest income		
Interest income, discounts and loans	$ 6,947,986	6,715,260
Interest income, accounts receivable factoring	223,866	154,947
Interest income, due from banks	1,695,940	1,285,256
Interest income, investment securities	870,384	1,045,311
Interest income, credit card recurrence	220,544	238,423
Interest income, other	361,757	166,141
Subtotal	10,320,477	9,605,338
Interest expense		
Interest expense, deposits	4,738,792	3,314,402
Interest expense, due to banks	1,189,680	558,194
Interest expense, financial debentures	308,847	389,392
Interest expense, other	26,851	13,101
Subtotal	6,264,170	4,275,089
Total	$ 4,056,307	5,330,249

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(ab) Net service fee income

		2018	2017
Service fee			
Service fee, loan	$	190,142	126,618
Service fee, agency		5,004	6,259
Service fee, insurance commission		1,930,236	1,855,818
Service fee, remittance and interbank		103,990	102,990
Service fee, guarantee, import, export and acceptance payable		64,983	53,645
Service fee, credit card		138,241	269,501
Service fee, trust		2,214,066	2,200,082
Service fee, factoring		9,042	20,395
Service fee, underwriting		194,825	134,286
Service fee, other		232,828	203,451
Subtotal		5,083,357	4,973,045
Service charge			
Service charge, interbank		153,143	152,553
Service charge, agency		131,791	109,949
Service charge, custodian		127,147	132,126
Service charge, other		196,489	120,573
Subtotal		608,570	515,201
Total	$	4,474,787	4,457,844

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

		2017	2017
Gain on disposal			
Interest-rate instruments	$	7,811	61,888
Derivative financial instruments		536,753	582,878
Subtotal		544,564	644,766
Gain on valuation			
Interest-rate instruments		995	17,589
Derivative financial instruments		2,682,661	736,410
Subtotal		2,683,656	753,999
Interest income		51,840	61,531
Total	$	3,280,060	1,460,296

(ad) Realized gain on available-for-sale financial assets

		2017
Profit on sale－debt instruments	$	9,061

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

		2018
Dividend income - equity instruments	$	16,435
Profit on sale - debt instruments		11,618
Total	$	28,053

(Continued)

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(af) Net other non-interest income

		2018	2017
Administrative support service income	$	3,180	3,184
Net gain on disposal of assets		-	130,460
Gain on financial assets carried at cost		-	15,669
Rental income		6,280	8,607
Net gain on fair value hedge		2,269	1,543
Other		(10,002)	8,798
Total	$	1,727	168,261

(ag) Impairment losses and reversal of impairment losses on assets

		2018	2017
Impairment loss—buildings and equipment	$	122,845	6,396
Impairment loss—other		2,549	-
Gains on reversal of impairment losses of financial assets or liabilities at fair value through profit or loss		(1,017)	-
Total	$	124,377	6,396

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

		2018	2017
Bad debt expense	$	693,032	766,395
Guarantee liabilities provision		14,645	1,952
Reversal of loan commitment		(77,180)	-
Reversal of other provision		(447)	-
Total	$	630,050	768,347

(ai) Employee benefits expense

		2018	2017
Salary expense	$	4,383,472	4,216,809
Employee insurance		305,388	300,213
Pension			
Defined contribution plan		161,765	157,013
Defined benefit plan		76,599	83,327
Other		270,630	300,990
Total	$	5,197,854	5,058,352

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

The accrued employee's remuneration of the Bank for the year ended December 31, 2018 was $281 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.

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The accrued employee's remuneration of the Bank for the year ended December 31, 2017 was $259 thousand, recorded under operating expenses— employee benefits expense, with no difference between the actual and estimated distributed bonus. Relevant information can be accessed through Market Observation Post System.

For the years ended December 31, 2018 and 2017, the average numbers of the Bank's employees were 3,183 and 3,276, of which the number of directors who had not served concurrently as employees were 6 and 7, respectively.

For the year ended December 31, 2018, the average amount of the employee benefits expense $1,636 thousand and the average amount of the salary expense was $1,380 thousand.

(aj) Depreciation and amortisation expenses

		2018	2017
Depreciation expense			
Buildings	$	83,527	88,007
Office equipment		1,775	4,200
Leasehold improvements		26,488	21,085
Other equipment		54,426	39,890
Subtotal		166,216	153,182
Amortisation expense		6,506	-
Total	$	172,722	153,182

(ak) Other general and administrative expenses

		2018	2017
Rental expense	$	404,457	447,876
Office supplies		83,418	90,238
Postage		194,727	173,753
Repairs and maintenance		153,345	273,566
Advertising expense		278,416	193,037
Utilities fee		74,379	81,062
Taxes		625,101	611,444
Professional service fee		113,528	75,765
Operational and advisory service fee		961,341	1,042,050
Consulting and technical support service fee		485,519	530,087
Wholesale banking business service fee		105,578	128,997
Building management fee		149,664	139,807
Computer management fee		411,926	326,560
Director's remuneration		8,250	7,138
Other		498,277	770,294
Total	$	4,547,926	4,891,674

(Continued)

(al) 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), financial instruments for hedging 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:

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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). For example, the option pricing model with historical volatility cannot represent the expectation of future volatility for the overall market participant.

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

	December 31, 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	$ 8,535,034	-	8,535,034	-
Financial assets at fair value through other comprehensive income				
Debt instruments	162,108,041	-	162,108,041	-
Equity instruments	387,042	-	-	387,042
Other financial assets — net				
Restricted assets — debt instruments	15,145,361	-	15,145,361	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	7,796,394	113,032	7,683,362	-
Financial assets for hedging	247,374	-	247,374	-
Liabilities:				
Financial liabilities at fair value through profit or loss	8,105,768	151,895	7,953,873	-
Financial liabilities for hedging	8,518	-	8,518	-

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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	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	43,768	-	43,768	-

5) For the years ended December 31, 2018 and 2017, the Bank did not have any transfer of financial 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	2018 Beginning balance	Profit	Other comprehensive income	Purchased or issued	Transferred out from level 3	Ending balance
Financial assets at fair value through other comprehensive income	$ 266,682	-	120,360	-	-	387,042

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.

Level 3 financial instruments of the Bank is non-listed equity investment, sensitivity analysis conducted for those equity investments. 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
December 31, 2018				
Financial assets at fair value through other comprehensive income-equity instruments	-	-	47,807	(35,165)

(Continued)

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

	December 31, 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	42,767	Net asset value approach	Net asset value	(-0.10%~0.10%)	The higher the net asset value, the higher the fair value
	302,675	Income approach	Discount rate sustainable growth rate	Discount rate is 6.25%~8.25% Sustainable growth rate is -0.10%~1.17%	The higher the discount rate the lower the fair value. The higher the sustainable growth rate, the higher the fair value
	41,600	Asset approach	Unlisted marketability discount	19.66%~29.66%	The higher the unlisted marketability discount rate, the lower the fair value

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 which 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.

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

	December 31, 2018	
Financial assets	**Book value**	**Fair value**
Cash and cash equivalents	$ 23,637,632	23,637,632
Due from the Central Bank and call loans to banks	81,627,972	81,631,061
Securities purchased under resell agreements and debt instruments	11,738,716	12,516,095
Receivables – net	24,576,560	24,576,560
Discounts and loans – net	277,484,777	277,955,177

	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

(Continued)

Financial liabilities	December 31, 2018 Book value	Fair value
Deposits from the Central Bank and banks	$ 36,496,273	36,496,543
Payables	4,790,749	4,790,749
Related parties payable	6,231,122	6,231,122
Deposits and remittances	510,768,268	510,505,914
Financial debentures	8,149,671	8,149,671
Other financial liabilities	329,190	329,190

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

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

Financial instruments measured at amortised cost	December 31, 2018				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Non-derivative financial instruments					
Assets:					
Cash and cash equivalents	$ 23,637,632	-	23,637,632	-	23,637,632
Due from the Central Bank and call loans to banks	81,627,972	-	81,631,061	-	81,631,061
Securities purchased under resell agreements and debt instruments	11,738,716	-	12,516,095	-	12,516,095
Receivables－net	24,576,560	-	24,576,560	-	24,576,560
Discounts and loans－net	277,484,777	-	-	277,955,177	277,955,177
Liabilities:					
Deposits from the Central Bank and banks	36,496,273	-	36,496,543	-	36,496,543
Payables	4,790,749	-	4,790,749	-	4,790,749
Related parties payable	6,231,122	-	6,231,122	-	6,231,122
Deposits and remittances	510,768,268	-	510,505,914	-	510,505,914
Financial debentures	8,149,671	-	8,149,671	-	8,149,671
Other financial liabilities	329,190	-	329,190	-	329,190

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	14,530,780	-	14,530,780	-	14,530,780
Other financial liabilities	1,264,386	-	1,264,386	-	1,264,386

(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 company's limits is 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.

	2018			2017		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Foreign exchange VaR	$ 3,621	7,479	1,228	5,579	13,231	1,755
Interest rate VaR	44,401	50,330	39,553	51,660	64,065	38,593
Total VaR	44,561	50,376	39,649	52,028	65,311	38,816

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.

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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:

	December 31, 2018			December 31, 2017		
	Foreign currency	**Exchange rate**	**NTD**	**Foreign currency**	**Exchange rate**	**NTD**
Long position						
USD	$23,149,484	30.737	711,553,944	18,691,183	29.848	557,890,443
CNY	16,210,757	4.478	72,589,986	3,810,556	4.578	17,443,602
AUD	900,380	21.673	19,513,515	396,906	23.297	9,246,900
JPY	59,150,194	0.278	16,443,030	33,517,246	0.265	8,873,235
EUR	412,901	35.187	14,528,563	805,809	35.690	28,759,253
HKD	1,794,734	3.926	7,045,881	1,531,397	3.819	5,848,896
Short position						
USD	23,122,966	30.737	710,738,859	18,687,982	29.848	557,794,894
CNY	16,195,736	4.478	72,522,726	3,797,477	4.578	17,383,734
AUD	896,241	21.673	19,423,819	396,911	23.297	9,247,000
JPY	58,640,679	0.278	16,301,391	33,543,041	0.265	8,880,064
EUR	425,934	35.187	14,987,140	806,274	35.690	28,775,841
HKD	1,790,530	3.926	7,029,376	1,526,808	3.819	5,831,369

g) Interest rate sensitivity information

i) Interest rate sensitivity analysis (NTD)

December 31, 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	$ 384,516,113	24,445,452	45,771,036	47,053,603	501,786,204
Interest rate sensitive liabilities	230,637,235	21,593,503	41,680,948	15,901,758	309,813,444
Interest rate sensitive gap	153,878,878	2,851,949	4,090,088	31,151,845	191,972,760
Net worth					45,226,171
Ratio of interest rate sensitive assets to liabilities (%)					161.96
Ratio of interest rate sensitive gap to net worth (%)					424.47

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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

ii) Interest rate sensitivity analysis (USD)

December 31, 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	$ 2,639,210	308,541	971,489	-	3,919,240
Interest rate sensitive liabilities	5,399,509	1,010,205	1,095,339	200,000	7,705,053
Interest rate sensitive gap	(2,760,299)	(701,664)	(123,850)	(200,000)	(3,785,813)
Net worth					797
Ratio of interest rate sensitive assets to liabilities (%)					50.87
Ratio of interest rate sensitive gap to net worth (%)					(475,007.90)

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)

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 continuously 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 continuously.

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, etc.

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. 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, and determine whether to accept remain risks in risk tolerances.

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

Under this policies, 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;

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.

e) Method used for regulatory capital calculation

Standardized Approach.

(Continued)

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	**December 31, 2018**	**December 31, 2017**
Other guarantees	$ 4,350,959	3,271,993
Unused amount of irrevocable loan commitments	1,404,882	527,051
Unused amount of irrevocable letters of credit	781,855	1,796,637
Total	$ 6,537,696	5,595,681

Due to the Bank's use of a stricter 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 is 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:

i) By industry

	December 31, 2018	**December 31, 2017**
Individual	$ 191,090,166	177,887,463
Manufacturing	48,279,793	44,258,875
Transportation and warehousing	15,373,969	17,322,363
Commercial	6,804,584	9,645,771
Government	-	3,500,000
Financial industry	9,697,751	9,219,616
Other	11,006,346	5,674,583
Total	$ 282,252,609	267,508,671

(Continued)

ii) By area

		December 31, 2018	December 31, 2017
Domestic	$	245,458,951	237,964,615
Overseas		36,793,658	29,544,056
Total	$	282,252,609	267,508,671

iii) By collateral

		December 31, 2018	December 31, 2017
Unsecured	$	87,313,358	82,826,631
Secured			
– Real estate		168,713,972	157,477,009
– Movable asset		13,647,381	15,494,988
– Debt instrument		9,454,406	8,857,182
– Other		3,123,492	2,852,861
Total	$	282,252,609	267,508,671

h) Credit quality and impairment analysis on financial asset

The main criteria for identifying significant increase in credit risk since initial recognition are as follows:

i) Internal/external risk rating of credit extensions at the reporting date deteriorates significantly compared to that at the initial recognition date.

ii) Significant change in the probability of default over the lifetime since origination.

iii) Borrowers that fail to make payment and are past due over 30 days.

iv) Borrowers that have outstanding amounts unpaid past maturity dates and are overdue for the agreed grace period.

v) Borrowers that have significant deterioration in ability to repay and face the compulsory enforcement, debt restructuring or legal action.

vi) Borrowers that have been placed as Early Alert – Non Purely Precautionary (EA-NPP) are concluded by Credit Issue Committee (CIC) to have fundamental deterioration in creditworthiness which require closer scrutiny and monitoring.

Definitions of default and credit impaired financial assets:

An account is in default when the borrower fails to make payments and account is over 90 days past due.

Besides, if there is objective evidence that borrower cannot make payments or there is evidence that borrower is in financial difficulty, the account can be considered as impaired:

i) Borrower is deceased

ii) Borrower has declared bankruptcy or may declare bankrupty or financial restructuring.

iii) Borrower has applied for debt restructuring program (including internal or government programs) due to financial difficulty.

To determine if there has either been a significant increase in credit risk post deal origination and to assess expected credit loss (ECL) for financial assets, the Company adopts a forward looking approach to generate multiple macroeconomic scenarios to ensure that ECL has been evaluated in a range of possible outcomes. The Company applies historical data to analyze and to identify key macroeconomic variables, such as real GDP, import and export values, consumer price index, and unemployment rate, that will have critical impact on the portfolio's credit performance as well as credit expected loss.

The Company generates base macroeconomic scenario by obtaining the forecasts of exchange rates, GDP and inflation rates from the economic research team. Moreover, to incorporate the non-linearity of ECL as well as to increase the visibility of macroeconomic forecasts, multiple macroeconomic scenarios are generated via Monte Carlo simulation, and the weighted average result of multiple scenario outcomes is applied to evaluate against the criteria of significant increase in credit risk and as well as to estimate ECL.

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.

i) Credit quality analysis

	December 31, 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	$ 12,164,489	1,674,109	-	13,838,598	173,463	1,303,421	-	1,476,884	-	-	157,155	15,158,327
— Credit cards receivable	2,184,401	1,983,152	6,147	4,173,700	4	11,966	5,476	17,446	162,522	387,132	313,199	4,427,601
Discounts and loans												
— Consumer banking	157,618,715	27,429,202	562,820	185,610,737	369,088	986,414	697,230	2,052,732	692,094	2,994,382	3,305,748	188,044,197
— Wholesale banking	52,931,526	32,184,821	12,410	85,128,757	1,934,220	2,138,409	4,711	4,077,340	1,213,157	53,752	1,221,178	89,251,828
— Non-accrual loans	-	-	-	-	-	-	-	-	305,584	124,074	294,465	135,193
Other financial assets												
— Overdue receivable	-	-	-	-	-	-	-	-	30,327	-	30,327	-
Off-balance sheet items												
Loan commitment and guarantees	4,510,609	1,518,732	-	6,029,341	395,043	113,312	-	508,355	-	-	97,059	6,440,637

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	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
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

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

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

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

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

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

i) Asset quality of the Bank

Units: in thousands of New Taiwan Dollars, %

Period / Product			December 31, 2018				
Product			Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio
Wholesale Banking	Secured		27,339	20,506,153	0.13 %	370,799	1,356.30 %
	Unsecured		298,882	70,279,933	0.43 %	1,139,341	381.20 %
Consumer Banking	Mortgage		154,848	139,455,833	0.11 %	2,145,210	1,385.37 %
	Personal loan		100,710	25,687,281	0.39 %	1,129,390	1,121.43 %
	Others	Secured	75,029	24,519,565	0.31 %	34,058	45.39 %
		Unsecured	-	1,803,844	- %	2,593	- %
Total			656,808	282,252,609	0.23 %	4,821,391	734.06 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			12,868	4,740,800	0.27 %	313,199	2,433.94 %
Factoring loan receivable without recourse			-	15,315,482	- %	157,155	- %

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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	- %

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

Units: in thousands of New Taiwan Dollars

	December 31, 2018 Loans that may be exempted from reporting as overdue loans	December 31, 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	$ 3,639	12,096	4,466	16,150
The amount under debt discharge program and rehabilitation program without default by debtors	271,949	37,473	280,901	42,738
	$ 275,588	49,569	285,367	58,888

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ii) Concentration of corporate credit risk for the bank

Units: in thousands of New Taiwan Dollars, %

December 31, 2018				
Rank	**Industry classification of group enterprise**		**Outstanding credit**	**% of net assets**
1	A Group	Manufacture or integrated circuits	5,739,494	12.71 %
2	B Company	Other financial service activities not elsewhere classified	5,532,724	12.26 %
3	C Group	Ocean transportation	5,076,777	11.25 %
4	D Group	Air transport	4,038,491	8.95 %
5	E Group	Manufacture of other electronic parts and components not elsewhere classified	3,918,841	8.68 %
6	F Group	Chemical products not elsewhere classified	3,684,241	8.16 %
7	G Group	Smelting and refining of iron and steel	2,817,900	6.24 %
8	H Group	Manufacture of cement	2,489,347	5.51 %
9	I Group	Manufacture of footwear	2,303,173	5.10 %
10	J Company	Real estate development activities	1,634,504	3.62 %

December 31, 2017				
Rank	**Industry classification of group enterprise**		**Outstanding credit**	**% of net assets**
1	B Company	Other financial service activities not elsewhere classified	5,372,601	12.26 %
2	D Group	Air transport	4,561,277	10.40 %
3	E 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	C Group	Ocean transportation	3,043,884	6.94 %
6	L Group	Investment advisory services	2,941,977	6.71 %
7	I 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 %

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 201.1 billion, which is equivalent to 32.10% 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.

	December 31, 2018				
	Within 3 months	**3 months~ 1 year**	**1~5 years**	**Over 5 years**	**Total**
Deposits from the Central Bank and banks	$ 33,335,037	3,161,236	-	-	36,496,273
Payables	4,790,749	-	-	-	4,790,749
Related parties payable	6,231,122	-	-	-	6,231,122
Deposits and remittances	390,860,075	117,092,836	2,815,357	-	510,768,268
Financial debentures	2,200	-	2,000,000	6,147,471	8,149,671
Other financial liabilities	244,663	84,527	-	-	329,190
Total	$ 435,463,846	120,338,599	4,815,357	6,147,471	566,765,273

(Continued)

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	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

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:

i) Maturity analysis of net settled derivatives

	December 31, 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	$ 110,005	27,322	52,417	8,148	77	197,969
－Interest rate derivative instruments	9,415	11,211	25,805	87,574	1,667,189	1,801,194
Derivative financial instruments for hedging						
－Interest rate derivative instruments	-	-	-	-	8,518	8,518
	$ 119,420	38,533	78,222	95,722	1,675,784	2,007,681

	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

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ii) Maturity analysis of gross settled derivatives

	December 31, 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	$ 219,033,271	165,344,241	136,984,890	79,034,162	3,210,423	603,606,987
－Cash inflow	217,402,560	163,810,744	134,929,654	78,098,563	3,144,110	597,385,631
Net cash flow	$ (1,630,711)	(1,533,497)	(2,055,236)	(935,599)	(66,313)	(6,221,356)

	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)

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.

	December 31, 2018				
	0~30 days	31~90 Days	91 days~ 1 year	Over 1 year	Total
Other guarantees	$ 805,381	1,207,883	1,922,148	415,547	4,350,959
Unused amount of irrevocable loan commitments	373,719	747,438	136,732	146,993	1,404,882
Unused amount of irrevocable letters of credit	215,503	516,886	49,466	-	781,855
	$ 1,394,603	2,472,207	2,108,346	562,540	6,537,696

	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

g) Structure Analysis of Maturity Date New Taiwan Dollars

December 31, 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	$ 879,050,471	197,718,458	89,276,860	147,557,086	111,477,953	125,750,669	207,269,445
Capital used	929,410,633	131,962,719	113,698,157	180,788,010	135,545,161	119,975,061	247,441,525
Gap	(50,360,162)	65,755,739	(24,421,297)	(33,230,924)	(24,067,208)	5,775,608	(40,172,080)

(Continued)

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)

h) Structure Analysis of Maturity Date US Dollars

December 31, 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	$ 25,447,302	10,758,549	5,713,459	4,434,006	3,776,362	764,926
Capital used	27,066,857	11,126,424	7,016,212	4,021,223	3,370,580	1,532,418
Gap	(1,619,555)	(367,875)	(1,302,753)	412,783	405,782	(767,492)

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)

(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:

December 31, 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	$ 8,043,768	-	8,043,768	3,339,296	1,317,955	3,386,517
Securities purchased under resell agreements	11,738,716	-	11,738,716	-	11,738,716	-
Total	$ 19,782,484	-	19,782,484	3,339,296	13,056,671	3,386,517

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	December 31, 2018					
	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	$ 8,114,286	-	8,114,286	3,339,296	1,180,788	3,594,202

	December 31, 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	$ 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					
	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	$ 7,428,672	-	7,428,672	3,071,079	708,533	3,649,060

(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":

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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 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.

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3) Capital adequacy

Item		Period-end	December 31, 2018	December 31, 2017
Self-owned capital	Common stock capital		40,752,246	39,686,736
	Other Tier 1 capital		-	-
	Tier 2 capital		9,600,646	9,433,516
	Total self-owned capital		50,352,892	49,120,252
Risk-weighted assets	Credit risk	Standard approach (SA)	274,205,939	261,584,019
		Internal ratings-based approach (IRB)	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach (BIA)	24,373,762	24,233,455
		Standardized approach(SA)/alternative approach	-	-
		Advanced measurement approach (AMA)	-	-
	Market risk	Standardized approach (SA)	20,198,732	17,487,767
		Internal model-based approach (IMA)	-	-
	Total risk-weighted assets		318,778,433	303,305,241
Capital adequacy ratio			15.80 %	16.19 %
Ratio of common stock to total risk-based assets			12.78 %	13.08 %
Ratio of Tier 1 capital to risk-based assets			12.78 %	13.08 %
Leverage ratio			6.19 %	5.90 %

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

(Continued)

Name	Relationship
Standard Chartered Bank Korea Limited ("SCB Korea")	Affiliate
Standard Chartered Bank Vietnam Limited ("SCB Vietnam")	Affiliate
Standard Chartered Bank Philippines Limited ("SCB Philippines")	Affiliate
Standard Chartered Bank South Africa Limited ("SCB South Africa")	Affiliate
Standard Chartered Bank Macau Limited ("SCB Macau")	Affiliate
Standard Chartered Bank Indonesia ("SCB Indonesia")	Affiliate
Standard Chartered Bank Dubai ("SCB Dubai")	Affiliate
Standard Chartered Bank Mauritius ("SCB Mauritius")	Affiliate
Standard Chartered Bank France ("SCB France")	Affiliate
Standard Chartered Bank Australia ("SCB Australia")	Affiliate
Standard Chartered Bank India ("SCB India")	Affiliate
Standard Chartered Bank Qatar ("SCB Qatar")	Affiliate
Standard Chartered Bank Malaysia ("SCB Malaysia")	Affiliate
Standard Chartered Bank UAE ("SCB UAE")	Affiliate
Standard Chartered Bank Sweden ("SCB Sweden")	Affiliate
Directors, 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 which people listed above are their directors, supervisors or presidents.

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(b) Significant transactions with related parties

(i) Deposits

December 31, 2018			
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 315,102	0.06	0.00~7.00

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

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

For the years ended December 31, 2018 and 2017, interest expenses on the above deposits were $2,121 thousand and $2,564 thousand, respectively. As of December 31, 2018 and 2017, the interest payables on the above transaction were $263 thousand and $239 thousand, respectively.

For the year ended December 31, 2018, interest expense on the time deposit of SCB Hong Kong was $66,068 thousand.

(ii) Loans

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	9,448	19	6,077	6,077	-	Unsecured lending	None
Mortgage	93,038	16	82,942	82,942	-	House	None
Other	3,765	Other individuals	3,155	3,155	-	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 years ended December 31, 2018 and 2017, interest income on the above loans were $1,405 thousand and $2,110 thousand, respectively. As of December 31, 2018 and 2017, the interest receivables from the above transaction were $68 thousand and $112 thousand.

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(iii) Foreign exchange and derivative transactions

December 31, 2018						
Name	Contracts	Contracts duration period	Notional	Gain (loss) on valuation	Balance sheet Account	Balance sheet Balance
SCB	Interest rate swap	2019.1.3~ 2028.11.29	$ 182,151,962	(131)	Financial assets at fair value through profit or loss	357,198
					Financial liabilities at fair value through profit or loss	(382,678)
	Spot/forward/swap	2019.1.2~ 2020.6.15	63,379,934	(296,763)	Financial assets at fair value through profit or loss	323,090
					Financial liabilities at fair value through profit or loss	(111,917)
	Foreign exchange option	2019.1.2~ 2020.10.13	80,866,194	311,012	Financial assets at fair value through profit or loss	15,999
					Financial liabilities at fair value through profit or loss	(239,362)
	Cross currency swap	2021.6.8~ 2021.10.4	737,531	38,943	Financial assets at fair value through profit or loss	24,697
SCB Singapore	Spot/forward/swap	2019.1.2~ 2019.11.17	42,213,398	464,268	Financial assets at fair value through profit or loss	395,844
					Financial liabilities at fair value through profit or loss	(108,050)
SCB Hong Kong	Spot/forward/swap	2019.1.2~ 2019.8.20	62,099,765	(45,193)	Financial assets at fair value through profit or loss	177,247
					Financial liabilities at fair value through profit or loss	(177,876)

December 31, 2017						
Name	Contracts	Contracts duration period	Notional	Gain (loss) on valuation	Balance sheet Account	Balance sheet Balance
SCB	Interest rate swap	2018.1.26~ 2027.12.7	$ 203,171,847	78,908	Financial assets at fair value through profit or loss	214,926
					Financial liabilities at fair value through profit or loss	(240,275)
	Spot/forward/swap	2018.1.2~ 2020.1.14	36,887,397	1,381,499	Financial assets at fair value through profit or loss	804,879
					Financial liabilities at fair value through profit or loss	(296,943)
	Foreign exchange option	2018.1.2~ 2018.12.28	115,253,516	1,869,975	Financial assets at fair value through profit or loss	13,662
					Financial liabilities at fair value through profit or loss	(548,037)
	Commodity swap	2018.1.3~ 2018.6.4	2,122,265	(118,764)	Financial assets at fair value through profit or loss	10,970
					Financial liabilities at fair value through profit or loss	(115,655)
	Cross currency swap	2018.1.5~ 2018.1.29	5,969,560	(1,077,908)	Financial liabilities at fair value through profit or loss	(14,246)
	Interest rate swap (Hedge)	2018.2.13~ 2018.2.20	507,413	14,611	Derivative financial liabilities for hedging	(349)
SCB Singapore	Spot/forward/swap	2018.1.2~ 2018.12.21	40,076,907	(1,623,498)	Financial assets at fair value through profit or loss	95,388
					Financial liabilities at fair value through profit or loss	(271,862)
SCB Hong Kong	Spot/forward/swap	2018.1.2~ 2018.12.21	19,971,299	149,198	Financial assets at fair value through profit or loss	215,651
					Financial liabilities at fair value through profit or loss	(171,087)

(Continued)

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

As of December 31, 2018 and 2017, the premium receivables resulting from the above option contracts were $2,159 thousand and $10,707 thousand, respectively, recorded under receivables－net; and as of December 31, 2018 of the premium payables resulting from the above option contracts was $3,468 thousand recorded under related parties payable. As of December 31, 2017, the interest payable from the above interest rate swap was $548 thousand, recorded under related parties payable.

(iv) Deposits with banks－affiliates

	2018		
	Balance	Interest rate %	Interest income
SCB Taipei	$ 6,600,000	0.16~0.24	8,183
SCB New York	3,233,520	1.20	17,323
SCB China	1,571,771	1.84	11,788
SCB Germany	1,453,462	-	-
SCB	1,361,771	-	-
SCB Japan	1,142,204	-	-
SCB Hong Kong	172,199	-	-
SCB Singapore	74,400	-	-
SCB Thailand	570	-	-
SCB Philippines	165	-	-
	$ 15,610,062		37,294

	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

As of December 31, 2018 and 2017, interest receivable resulting from the above deposits with banks to affiliates were $2,038 thousand and $3,973 thousand, respectively. For the years ended December 31, 2018 and 2017, the service charge from the above deposits were $24,165 thousand and $26,288 thousand, respectively, recorded under net service fee income.

(v) Call loans to banks—affiliates

	2018		
	Balance	**Interest rate %**	**Interest income**
SCB Taipei	$ 27,981,517	-0.21~4.00	725,866
SCB	12,141,256	-0.50~2.40	286,857
SCB Hong Kong	-	-0.75~7.60	24,009
SCB Japan	-	-0.16~2.45	9,626
SCB China	-	-0.50~5.10	3,449
SCB Korea	-	1.52~2.24	2,001
SCB Thailand	-	-0.45~2.40	338
SCB Singapore	-	1.70~2.80	77
SCB Germany	-	-0.50	(753)
	$ 40,122,773		1,051,470

	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

As of December 31, 2018 and 2017, the interest receivables resulting from the above call loans to banks to affiliates were $185,627 thousand and $144,004 thousand, respectively, recorded under receivables—net.

(vi) Deposits from banks—affiliates

	2018		
	Balance	**Interest rate %**	**Interest expense**
SCB Taipei	$ 211,519	0.01	72

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

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

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

(vii) Overdrafts on banks－affiliates

	2018		
	Balance	**Interest rate %**	**Interest expense**
SCB Hong Kong	$ 45,561	6.38	300
SCB Germany	-	1.50	4,452
SCB China	-	7.21	1,195
SCB New York	-	2.40	1,130
SCB Singapore	-	10.75	29
SCB	-	1.75	3
	$ 45,561		7,109

	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

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

(viii) Call loans from banks－affiliates

	2018		
	Balance	**Interest rate %**	**Interest expense**
SCB Hong Kong	$ 25,178,765	-0.45~7.30	611,911
SCB Vietnam	4,456,917	2.20~3.04	58,581
SCB Taipei	4,027,945	0.00~2.83	24,865
SCB Korea	1,844,242	1.47~2.80	22,886
SCB Macau	614,747	0.05~2.79	14,382
SCB Japan	-	0.00~2.80	45,436
SCB Singapore	-	-0.45~2.33	5,570
SCB Thailand	-	2.06~2.25	3,039
SCB China	-	1.50~2.40	2,836
SCB	-	-0.40~-0.22	(170)
	$ 36,122,616		789,336

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

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

As of December 31, 2018 and 2017, the interest payables resulting from the above call loans from banks to affiliates were $167,368 thousand and $67,057 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 redeemed on maturity.

For the year ended December 31, 2017, the interest income resulting from the redemption was $227,078 thousand.

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

Name	December 31, 2018	December 31, 2017
SCB	$ 346,779	238,185

For the years ended December 31, 2018 and 2017, the interest income resulting from the above transaction were $6,506 thousand and $1,421 thousand, respectively. As of December 31, 2018 and 2017, the interest receivable resulting from the above transaction were $329 thousand and $162 thousand, respectively, recorded under receivables—net.

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

Name	Bond (note)	December 31, 2018	December 31, 2017
SCB	103-2	$ 6,147,471	5,969,557

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

For the years ended December 31, 2018 and 2017, the interest expenses on the above transactions were $275,203 thousand and $277,770 thousand, respectively. As of December 31, 2018 and 2017, the interest payables on the above transactions were $10,758 thousand and $10,447 thousand, respectively, recorded under related parties payable.

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

(xii) Guarantee

	2018			
	Maximum balance during the period	**Ending balance**	**Expense**	**Collateral**
SCB Indonesia	$ 12,295	12,295	USD100 (per case)	None

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

(xiii) For the year ended December 31, 2018, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $961,341 thousand, $485,519 thousand, and $105,578 thousand, respectively. For the year ended December 31, 2017, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $1,042,050 thousand, $530,087 thousand, and $128,997 thousand, respectively. As of December 31, 2018 and 2017, fees payables to SCB were $5,662,056 thousand and $8,144,014 thousand, respectively, recorded under related parties payable. For the year ended December 31, 2018 and 2017, the group insurance expenses for entering the group insurance amounted to $21,468 thousand and $23,600 thousand, respectively.

(xiv) For the years ended December 31, 2018 and 2017, the related cost of the Executive Share Option Scheme amounted to $26,752 thousand and $26,038 thousand, respectively. As of December 31, 2018 and 2017, the estimated accounts payable to SCB for the share-based payment scheme costs amounted to $73,574 thousand and $45,183 thousand, respectively, recorded under related parties payable. The prepaid fee to SCB for the share-based payment scheme costs amounted to $857 thousand and $832 thousand, respectively, recorded under other assets－net.

(xv) For the years ended December 31, 2018 and 2017, expenses resulting from operating and other business related activities with affiliates were as follows:

Name	**2018**	**2017**
Technical support service fees:		
SCB Singapore	$ 10,094	6,124
SCB	7,558	5,074
SCB Hong Kong	6,738	10,738
SCB Philippines	4,663	-
SCB Australia	1,675	-
Other	1,430	746
Total	$ 32,158	22,682

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

Name		2018	2017
Information technology service fees:			
Standard Chartered Global Business Services Sdn Bhd	$	152,220	100,403
Standard Chartered Global Business Services Private Limited		112,315	102,264
Total	$	**264,535**	**202,667**
Consultant service income, origination income, and trading income:			
SCB	$	228,781	199,646
SCB Hong Kong		78,020	61,521
SCB New York		19,058	23,781
SCB China		14,958	10,652
Other		13,076	10,030
Total	$	**353,893**	**305,630**
Consultant service fees and origination fees:			
SCB	$	52,681	11,928
SCB Hong Kong		52,345	2,073
SCB New York		43,043	266
SCB China		11,774	(3,712)
SCB Korea		11,746	10,911
Other		31,736	6,094
Total	$	**203,325**	**27,560**

As of December 31, 2018 and 2017, technical support service fees payables and information technology service fees payables were $69,430 thousand and $29,265 thousand, respectively, recorded under related parties payable. As of December 31, 2018 and 2017, consultant service income, origination income, trading income and technical support service receivables were $216,111 thousand and $275,711 thousand, respectively, recorded under receivables—net. As of December 31, 2018 and 2017, consultant service fees, origination fees and trading fees payables were $247,672 thousand and $53,068 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 years ended December 31, 2018 and 2017, the rentals were $3,091 thousand and $3,122 thousand, respectively. As of December 31, 2018 and 2017, the utility and information system usage income receivables from SCB Taipei were $80 thousand and $71 thousand, respectively, recorded under receivables— net. For the years ended December 31, 2018, and 2017, the related recharge from expense allocation were $934 thousand and $947 thousand, respectively.

(xvii) For the years ended December 31, 2018 and 2017, the administrative support service income from SCB Taipei to the Bank were $3,180 thousand and $3,184 thousand, respectively.

(xviii)The Bank entered into the Exclusivity Fee Sharing Agreement with Standard Chartered Bank Singapore. For the years ended December 31, 2018 and 2017, the service fee income were $664,955 thousand and $562,083 thousand, respectively, recorded under net service fee income. As of December 31, 2018 and 2017, the service income receivables were $476,442 thousand and $2,050,231 thousand, respectively, recorded under receivables－net. Advance service fee income totaled $1,743,369 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 for directors and supervisors

	2018	2017
Salary and other short-term benefits	$ 253,380	242,186
Post-employment benefits	1,175	1,101
Total	$ 254,555	243,287

(8) Pledged assets:

Units: in thousands of New Taiwan Dollars

Pledged assets	Pledged for	Face value December 31, 2018	Face value December 31, 2017
Negotiable certificates of deposit, bonds (recorded under other financial assets)	Provision seizures	$ -	2,900
	USD overdraft clearing deposits	14,600,000	7,000,000
Total		$ 14,600,000	7,002,900

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

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

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(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 Republic 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)

(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

	December 31, 2018	December 31, 2017
Consignment collection for others	$ 5,081,527	5,830,661
Securities, consignments and goods in custody	1,669,911,090	2,376,437,835
Trust assets	89,389,906	94,424,876
	$ 1,764,382,523	2,476,693,372
Other guarantees	$ 4,350,959	3,271,993
Unused amount of irrevocable loan commitments	$ 1,404,882	527,051
Unused amount of irrevocable letters of credit	$ 781,855	1,796,637

(b) Operating leases

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

	December 31, 2018	December 31, 2017
Not later than one year	$ 368,202	431,888
Later than one year and less than five years	537,676	816,016
Total	$ 905,878	1,247,904

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

(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 on 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.

(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
December 31, 2018

Trust assets			Trust liabilities		
Bank deposits	$	7,409	Accounts payable	$	4
Short-term investments		84,214,746	Tax payable		-
Structured notes		4,693,436	Payables for securities under custody		474,308
Securities under custody		474,308	Trust capital and accumulated earnings		88,915,588
Other assets		1			
Total trust assets	$	89,389,900	Total trust liabilities	$	89,389,900

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 income statements

		2018	2017
Trust revenue:			
Interest revenue	$	4,814,335	4,001,698
Common stock cash dividends		238	358
Realized gain on investments		1,606,738	2,287,405
Unrealized gain on investments		1,053,231	3,917,889
Net gain on trading of assets		8	-
		7,474,550	10,207,350
Trust expenses:			
Management expense	$	48	59
Service charges		-	1
Realized loss on investments		2,235,284	2,155,260
Unrealized loss on investments		7,613,947	1,108,305
Loss on trading of assets		-	37
		9,849,279	3,263,662

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

Trust income statements

	2018	2017
Net gain (loss) before income tax	$ (2,374,729)	6,943,688
Income tax expense	-	-
Net gain (loss) after income tax	$ (2,374,729)	6,943,688

Schedules of investment for trust business

Investment items	December 31, 2018	December 31, 2017
Bank deposits	$ 7,409	5,758
Short-term investments:		
Bonds	24,588,864	23,170,622
Common stock	4,344,437	3,913,947
Funds	55,281,445	62,391,939
Structured notes	4,693,436	4,319,337
Securities under custody	474,308	623,272
Other assets	1	1
	$ 89,389,900	94,424,876

Foreign currency trust business engaged by the Offshore Banking Unit (OBU) as of December 31, 2018 and 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		December 31, 2018	December 31, 2017
Return on assets	Before income tax	0.44	0.41
	After income tax	0.43	0.35
Return on equity	Before income tax	6.31	6.06
	After income tax	6.12	5.13
Net profit ratio		20.39	16.31

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

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(13) Other disclosures items:

For the year ended December 31, 2018, relevant information of any major transactions that the Bank was required to disclose are as follows:

(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 are 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(h) 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

STANDARD CHARTERED BANK (TAIWAN) LIMITED
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(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 %	29,038	-	3,417	-	3,417	4.84 %	Note 2
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 %	300,806	15,735	5,938	-	5,938	1.14 %	Note 2
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 %	8,740	137	851	-	851	5.00 %	Note 2
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 %	4,989	-	558	-	558	4.76 %	Note 2 and 3
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 2
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 %	41,600	350	5,000	-	5,000	2.94 %	Note 2
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 %	1,869	110	85	-	85	1.42 %	Note 2

Note 1: The book value of investments recorded under financial assets at fair value through other comprehensive income.

Note 2: Except for capital reduction performed by Universal Venture Investment, Inc. in 2018, shares held by the Bank remained the same as compared to December 31, 2017.

Note 3: Universal Venture Investment Inc. reduced its equity through share cancellations on August 10, 2018.

Note 4: For the year ended December 31, 2018, liquidation dividend of $103 thousand issued by Fuji Enterprise Management Corporation, which was liquidated in 2013, was recevied and?recorded under realized gain on financial assets at fair value through other comprehensive income.

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

(i) Name, main operating items 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, so there is no geographic information applicable. There is no income from one single client that represents more than 10% of the consolidated income of the Bank.

(Continued)

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 reconciliation of operating segments were as follows:

	2018				
	Retail Banking	International Corporates and Financial Institutions Banking	Commercial Banking	Other Banking	Total
Interest income	$ 5,144,283	1,752,758	610,905	2,812,531	10,320,477
Interest expense	191,575	(1,095,547)	(89,866)	(5,270,332)	(6,264,170)
Net interest income	5,335,858	657,211	521,039	(2,457,801)	4,056,307
Net service fee income	3,657,821	766,356	71,432	(20,822)	4,474,787
Other miscellaneous income	382,064	647,511	195,434	3,600,611	4,825,620
Net income	9,375,743	2,071,078	787,905	1,121,988	13,356,714
Bad debt expense and (provision for) reversal of guarantee liabilities	(418,734)	(178,291)	(34,120)	1,095	(630,050)
Operating expense	(7,613,959)	(1,619,249)	(894,818)	209,524	(9,918,502)
Segment profit or loss	$ 1,343,050	273,538	(141,033)	1,332,607	2,808,162
Segment assets	$ 206,782,206	91,157,915	27,947,613	300,685,058	626,572,792
Segment liabilities	$ 339,071,988	150,604,216	58,622,020	33,128,786	581,427,010

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