Stock code:2807

STANDARD CHARTERED BANK (TAIWAN) LIMITED

FINANCIAL STATEMENTS

December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)

KPMG

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Standard Chartered Bank (Taiwan) Limited ("the Bank"), which comprise the statement of financial position as of December 31, 2016 and 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years ended December 31, 2016 and 2015, 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").

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 Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Impairment of loans and advances

1) Risk and descriptions of the key audit matter:

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

Wholesale banking clients are subjected to continuous depreciation of the CNY against the USD, which adds more uncertainty to the recoverability of the loans and advances; residential mortgage is one of the major components of loans. Due to the declining in property trading volume and the decreasing in pricing, causing the values of the collaterals to drop which adds probability of insufficient guarantee. This matter requires significant attention of our audit for the financial statement.

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

2) Procedures performed:

- Testing the key control over the credit grading and monitoring processes, to assess if the risk grades allocated to the counterparties which follows the Bank's policy and loans were identified, on a timely basis, into early alert or higher credit grades.

- Performing credit assessments by sampling of all loans with a significant carrying value and high-risk loans that are on the Early Alert Report. For these selected loans, we assessed the reasonableness of the forecast of recoverable cash flows, realization of collateral and other possible sources of repayment.

- For portfolio impairment provision ("PIP"), our procedures included:

  — Assessing the appropriateness of the models used for calculating the PIP.

  — Testing the appropriateness of the inputs into the model.

- Assessing whether the loan loss provision is in line with the minimum requirement of the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.

2. Valuation of financial instruments

1) Risk and descriptions of the key audit matter:

The risk is that the valuation of financial instruments may be misstated due to the application of valuation techniques which often involve the exercise of judgment and the use of assumptions and estimates. Of the financial instruments that are held at fair value through profit and loss or as available-for-sale in the Bank's balance sheet, majority were qualified as being measured using level 1 or 2 inputs in the fair value hierarchy as of December 31, 2016. This means they were valued using prices that were observable in the market place or through models with market observable inputs, including those inputs that can be observed directly (quoted prices) or indirectly (derived from quoted prices) from active markets, resulting in the valuation risk being low. The measurement of the fair value of the input parameters of Level 3 are not based on observable market data, therefore, during the valuation process, those related to the modeling assumptions used by the Bank in measuring expected exposures of derivatives and the appropriateness of the proxies used (for estimating loss rates) for counterparties may cause differences in calculation.

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

2) Procedures performed:

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

- Testing, for a selection of pricing inputs used, that they were externally sourced and were correctly input into pricing models.
- Understanding the Bank's valuation model and valuation methodology for financial instrument.
- Valuing a selection of debt securities and derivative positions independently, using appointed external valuation specialized, and comparing their valuation to the Bank's valuation.
- We also performed a range of additional procedures on the credit and funding valuations adjustments which included:
  - Appointed our valuation specialists to assess the appropriateness of the methodology and to assess the key underlying models used.
  - Checked the selections of counterparty exposures to assess whether these were appropriately netted in arriving at the final exposures.
  - Assessed the appropriateness of the Bank's credit risk valuation adjustment.

3. Realization of deferred tax assets

1) Risk and descriptions of the key audit matter:

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

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

2) Procedures performed:

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

- Comparing the relating assumption on the prediction of future operation with the Bank's financial forecast, and taking into account the quality of profit forecast and book-tax difference of prior years.
- Evaluating the assumption of growth rate made by the Bank, based on our understanding and relating information of banking industry.
- Assessing whether the financial statement disclosures of the deferred tax assets are appropriate.

4. Goodwill impairment

1) Risk and descriptions of the key audit matter:

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

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

2) Procedures performed:

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

5. Disclosures on related party transactions

1) Risk and descriptions of the key audit matter:

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

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

2) Procedures performed:

- Understanding of the Bank's related party recognition process.
- Verifying 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.

KPMG

KPMG

Taipei, Taiwan (Republic of China)
March 24, 2017

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.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

Standard Chartered Bank (Taiwan) Limited

Balance Sheets

December 31, 2016 and 2015

(expressed in thousands of New Taiwan Dollars)

Code	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
11000	Cash and cash equivalents (notes 6(1) and 7)	$ 14,168,772	2	9,690,695	1
11500	Due from the Central Bank and call loans to banks (notes 6(2) and 7)	102,109,199	17	87,019,615	13
12000	Financial assets at fair value through profit or loss (notes 6(3) and 7)	26,530,679	4	29,014,134	4
12300	Derivative financial assets for hedging—net (notes 6(4) and 7)	140,667	-	81,431	-
12500	Securities purchased under resell agreements and debt instruments(note 6(5))	3,196,000	1	2,499,824	-
13000	Receivables—net (notes 6(6), (10) and 7)	18,603,886	3	21,890,528	3
13200	Current tax assets (note 6(22))	284,209	-	239,692	-
13500	Discounts and loans—net (notes 6(4), (7), (10) and 7)	267,281,457	43	303,239,940	46
14000	Available-for-sale financial assets—net (notes 6(4), (8) and 7)	157,879,248	26	182,784,483	27
15500	Other financial assets—net (notes 6(9), (10) and 8)	14,411,707	2	10,502,108	2
18500	Property, plant and equipment—net (note 6(11))	4,687,179	1	4,925,588	1
19000	Intangible assets—net (note 6(12))	3,156,048	1	3,156,048	1
19300	Deferred tax assets (note 6(22))	1,767,016	-	2,238,372	-
19500	Other assets—net (notes 6(13),7 and 8)	1,307,968	-	9,942,704	2
	Total assets	$ 615,524,035	100	667,225,162	100

Code	Liabilities and equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Liabilities:				
21000	Deposits from the Central Bank and banks (notes 6(14) and 7)	$ 31,412,055	5	27,979,736	4
22000	Financial liabilities at fair value through profit or loss (notes 6(3) and 7)	14,882,839	2	17,058,968	3
22300	Derivative financial liabilities for hedging—net (notes 6(4) and 7)	40,185	-	32,480	-
23000	Payables (note 6(15))	3,673,461	1	8,480,694	1
23100	Related parties payable (note 7)	10,207,386	2	12,335,869	2
23200	Current tax liabilities (note 6(22))	17,998	-	99,875	-
23500	Deposits and remittances (notes 6(4), (16) and 7)	492,606,933	80	497,589,001	75
24000	Financial debentures—net (notes 6(4), (17) and 7)	16,037,802	3	53,341,063	8
25500	Other financial liabilities (note 6(18))	1,033,273	-	1,158,492	-
25600	Provisions (notes 6(10), (19) and (21))	1,482,568	-	1,791,407	-
29300	Deferred tax liabilities (note 6(22))	645,744	-	672,273	-
29500	Other liabilities (note 6(20))	1,754,631	-	3,405,545	1
	Total liabilities	573,794,875	93	623,945,403	94
	Equity:				
31101	Common stock (note 6(24))	29,105,720	5	29,105,720	4
31500	Capital surplus (note 6(24))	5,794,771	1	5,794,771	1
	Retained earnings:				
32001	Legal reserve (note 6(24))	6,381,790	1	5,950,095	1
32003	Special reserve (note 6(24))	342,222	-	347,706	-
32005	Unappropriated earnings (note 6(24))	266,400	-	1,465,876	-
		6,990,412	1	7,763,677	1
32500	Other equity interest (note 6(24))	(161,743)	-	615,591	-
	Total equity	41,729,160	7	43,279,759	6
	Total liabilities and equity	$ 615,524,035	100	667,225,162	100

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited

Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan Dollars)

		2016 Amount	2016 %	2015 Amount	2015 %	Change %
41000	**Interest income (notes 6(27) and 7)**	$ 9,725,689	80	12,236,352	89	(21)
51000	**Less：Interest expense (notes 6(27) and 7)**	3,567,771	29	5,104,577	37	(30)
	Net interest income	6,157,918	51	7,131,775	52	(14)
	Net non-interest income					
49100	Net service fee income (notes 6(28) and 7)	4,011,253	33	4,018,880	29	-
49200	Gain on financial assets or liabilities at fair value through profit or loss (notes 6(29) and 7)	2,304,690	19	1,231,888	9	87
49300	Realized gain on available-for-sale financial assets (note 6(30))	59,642	-	83,891	1	(29)
49600	Foreign exchange (loss) gain	(318,235)	(3)	1,073,377	8	(130)
49800	Net other non-interest income (notes 6(4), (9), (31) and 7)	14,412	-	197,027	1	(93)
49700	Impairment losses on assets (notes 6(11) and (32))	(486)	-	(15,498)	-	97
	Net revenue	12,229,194	100	13,721,340	100	(11)
58200	**Bad debt expense and guarantee liability provision (notes 6(10) and (33))**	1,469,813	12	1,085,551	8	35
	Operating expenses:					
58500	Employee benefits expenses (notes 6(21), (25), (34) and 7)	5,049,033	41	5,338,732	39	(5)
59000	Depreciation and amortization expenses (notes 6(11), (12) and (35))	200,986	2	290,356	2	(31)
59500	Other general and administrative expenses (notes 6(36) and 7)	4,731,976	39	5,249,781	38	(10)
	Total operating expenses	9,981,995	82	10,878,869	79	(8)
	Income before tax	777,386	6	1,756,920	13	(56)
61003	**Less: income tax expense (note 6(22))**	610,368	5	317,938	3	92
	Net income	167,018	1	1,438,982	10	(88)
65000	**Other comprehensive income:**					
65200	**Items that may not to be reclassified subsequently to profit or loss:**					
65201	Remeasurements of defined benefit plan (note 6(21))	113,130	1	32,402	-	249
65220	Income tax expense related to items that may not to be reclassified subsequently to profit or loss (note 6(22))	(19,232)	-	(5,508)	-	(249)
	Total items that may not to be reclassified subsequently to profit or loss	93,898	1	26,894	-	249
65300	**Items that may be reclassified subsequently to profit or loss:**					
65302	Change in fair value of available-for-sale financial assets recognized	(812,360)	(7)	(145,272)	(1)	(459)
65303	Change in fair value of cash flow hedges recognized	(38,425)	-	(173,158)	(1)	78
65320	Income tax benefit related to items that may be reclassified subsequently to profit or loss (note 6(22))	73,451	1	70,150	1	5
	Total items that may be reclassified subsequently to profit or loss	(777,334)	(6)	(248,280)	(1)	(213)
65000	**Other comprehensive income, net of tax**	(683,436)	(5)	(221,386)	(1)	(209)
	Total comprehensive income	$ (516,418)	(4)	1,217,596	9	(142)
67500	**Basic earnings per share (NTD) (note 6(26))**	$ 0.06		0.49		

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited

Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan Dollars)

	Share capital		Retained earnings			Other item in stockholders' equity		
	Ordinary share	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total equity
Balance as of January 1, 2015	$ 29,105,720	5,786,031	4,970,169	347,706	3,708,006	728,684	135,187	44,781,503
Unpresented cash dividends transferred to capital surplus (note 6(24))	-	8,740	-	-	-	-	-	8,740
Appropriation and distribution of retained earnings:								
Legal reserve (note 6(24))	-	-	979,926	-	(979,926)	-	-	-
Cash dividends on ordinary share (note 6(24))	-	-	-	-	(2,728,080)	-	-	(2,728,080)
Net income	-	-	-	-	1,438,982	-	-	1,438,982
Other comprehensive income	-	-	-	-	26,894	(104,559)	(143,721)	(221,386)
Total comprehensive income	-	-	-	-	1,465,876	(104,559)	(143,721)	1,217,596
Balance as of December 31, 2015	29,105,720	5,794,771	5,950,095	347,706	1,465,876	624,125	(8,534)	43,279,759
Appropriation and distribution of retained earnings:								
Legal reserve (note 6(24))	-	-	431,695	-	(431,695)	-	-	-
Special reserve (note 6(24))	-	-	-	(5,484)	5,484	-	-	-
Cash dividends of ordinary share (note 6(24))	-	-	-	-	(1,034,181)	-	-	(1,034,181)
Net income	-	-	-	-	167,018	-	-	167,018
Other comprehensive income	-	-	-	-	93,898	(745,441)	(31,893)	(683,436)
Total comprehensive income	-	-	-	-	260,916	(745,441)	(31,893)	(516,418)
Balance as of December 31, 2016	$ 29,105,720	5,794,771	6,381,790	342,222	266,400	(121,316)	(40,427)	41,729,160

Note: For the years ended December 31, 2016 and 2015, the amounts of employee remuneration were $78 thousand and $160 thousand, respectively, deducted from the statements of comprehensive income from each of the periods.

See accompanying notes to financial statements

Standard Chartered Bank (Taiwan) Limited

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan Dollars)

		2016	2015 (Reclassified)
Cash flow from (used in) operating activities:			
Profit before tax	$	777,386	1,756,920
Adjustments:			
Adjustments to reconcile profit (loss)			
Depreciation expense		200,986	290,329
Amortization expense		-	27
Bad debt expense and guarantee liability provision		1,469,813	1,085,551
Interest expense		3,567,771	5,104,577
Interest income		(9,725,689)	(12,236,352)
Net change in other provisions		(196,173)	(6,808)
Loss (gain) on disposal of property and equipment		33,747	(91,903)
Impairment loss on assets		486	15,498
Gain on disposal of financial assets carried at cost		-	(41,549)
Total adjustments to reconcile profit (loss)		(4,649,059)	(5,880,630)
Changes in operating assets and liabilities:			
Changes in operating assets:			
Due from the Central Bank and call loans to banks		20,408,145	(812,228)
Financial assets at fair value through profit or loss		2,483,455	7,397,580
Receivables		2,830,505	8,170,919
Discounts and loans		35,021,992	33,140,532
Available-for-sale financial assets		24,092,790	18,238,650
Other financial assets		(4,235,780)	5,330,566
Total changes in operating assets		80,601,107	71,466,019
Changes in operating liabilities:			
Deposits from the Central Bank and banks		3,432,319	2,102,802
Financial liabilities at fair value through profit or loss		(2,176,129)	3,596,869
Payables		(6,928,700)	(2,728,216)
Deposits and remittances		(4,982,068)	(99,930,482)
Other financial liabilities		(125,219)	(2,146,037)
Other liabilities		(1,650,914)	(1,761,633)
Total changes in operating liabilities		(12,430,711)	(100,866,697)
Total changes in operating assets and liabilities		68,170,396	(29,400,678)
Total adjustments		63,521,337	(35,281,308)
Cash inflow (outflow) generated from operations		64,298,723	(33,524,388)
Interest received		9,975,149	12,030,325
Interest paid		(3,574,787)	(5,284,246)
Income taxes (paid)		(237,716)	(319,196)
Net cash flows from (used in) operating activities		70,461,369	(27,097,505)
Cash flows from (used in) investing activities:			
Proceeds from disposal of financial assets at cost		-	57,499
Proceeds from disposal of property, plant and equipment		102,846	377,126
Acquisition of property, plant and equipment		(99,656)	(109,446)
Decrease (increase) in derivatives collateral		8,852,213	(1,760,092)
(Increase) decrease in other assets		(217,477)	290,466
Net cash flows from (used in) investing activities		8,637,926	(1,144,447)
Cash flows used in financing activities:			
Decrease in derivative financial instruments for hedging		(59,883)	(190,709)
Decrease in financial debentures		(37,201,127)	(1,227,176)
Cash dividends paid		(1,034,181)	(2,728,080)
Net cash flows used in financing activities		(38,295,191)	(4,145,965)
Change in foreign exchange rate		(132,122)	1,377,463
Net increase (decrease) in cash and cash equivalents		40,671,982	(31,010,454)
Cash and cash equivalents at beginning of period		55,656,556	86,667,010
Cash and cash equivalents at end of period	$	96,328,538	55,656,556
Components of cash and cash equivalents:			
Cash and cash equivalents reported in the balance sheets	$	14,168,772	9,690,695
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		78,963,766	43,466,037
Securities purchased under resell agreements and debt instruments qualifying for cash and cash equivalents under the definition of IAS 7		3,196,000	2,499,824
Cash and cash equivalents at end of period	$	96,328,538	55,656,556

See accompanying notes to financial statements

(1) Organization

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

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

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

During 2006, Standard Chartered Bank provided a tender offer to acquire the outstanding shares of Hsinchu International Bank Co., Ltd. Accordingly, Standard Chartered Bank acquired over 95% of the outstanding. After completion of the acquisition of shares, Hsinchu International Bank Co., Ltd. immediately submitted the delisting application, which was approved by the related authorities on January 18, 2007. On June 30, 2007, the operations of Standard Chartered Bank, Taipei Branch were transferred to Hsinchu International Bank Co., Ltd.; subsequently, Hsinchu International Bank Co., Ltd. was renamed Standard Chartered Bank (Taiwan) Limited on July 2, 2007. As of December 31, 2016, the Bank comprises 73 branches, a business department, a trust department, and an offshore banking unit.

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

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

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

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

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

(2) Approval date and Procedures of the Financial Statements

The financial statements were authorized for issuance by the Board of Directors on March 24, 2017.

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

1) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commissions R.O.C. ("FSC") but not yet in effect

According to the Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

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

(Continued)

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

2) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Bank should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Bank's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
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 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of classification and measurement of share based payment transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 " Insurance Contracts"("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 "Investment Property"	January 1, 2018

The Bank is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 "Revenue from Contracts with Customers" establishes a five step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts," and a number of revenue related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17 "Leases".
September 11, 2014	Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	The amendments clarify that a full gain or loss is recognized when a transfer to an associate or a joint venture involves a business; and a partial gain or loss is recognized if the asset transferred does not contain a business. The gain or loss that is not recognized is eliminated against the cost of the investment.
January 19, 2016	Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses if certain conditions are met, including the question of how to determine future taxable profit for the recognition test.
January 29, 2016	Amendment to IAS 7 "Disclosure Initiative"	The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes (for example, foreign exchange gain or loss).

(Continued)

Issuance / Release Dates	Standards or Interpretations	Content of amendment
June 20, 2016	Amendment to IFRS 2 "Clarifications of classification and measurement of share based payment transactions"	The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: a. The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; b. The classification of share-based payment transactions with a net settlement feature for withholding tax obligations;and c. A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
September 12, 2016	Amendments to IFRS 4 " Insurance Contracts"("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	The amendments provide the following optional approaches to reduce the impact of the differing effective dates of IFRS 9 "Financial Instruments" and the forthcoming IFRS 4 "Insurance Contracts": a. Give all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 "Financial Instruments" is applied before the new insurance contracts Standard is issued; and b. Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 "Financial Instruments" until 2021. The entities that defer the application of IFRS 9 "Financial Instruments" will continue to apply the existing financial instruments Standard—IAS 39 "Financial Instruments: Recognition and Measurement".

(Continued)

Issuance / Release Dates	Standards or Interpretations	Content of amendment
December 8, 2016	Annual Improvements to IFRS Standards 2014–2016 Cycle: • IFRS 12 "Disclosure of Interests in Other Entities" • IFRS 1 "First-time Adoption of International Financial Reporting Standards" • IAS 28 "Investments in Associates and Joint Ventures"	• Outdated exemptions for first-time adopters of IFRS are removed. • The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. • A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. • A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.
December 8, 2016	IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	IFRIC 22 "Foreign Currency Transactions and Advance Consideration" clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration.
December 8, 2016	Amendments to IAS 40 "Investment Property"	The amendments specify that a transfer into, or out of, investment property would be made only when there has been a change in use of a property, supported by evidence that a change in use has occurred. The amendments also clarify that the list of circumstances that provide evidence of a change in use set out in paragraph 57 (a)-(d) of IAS 40 "Investment Property" contains examples and is not an exhaustive list.

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

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(4) Summary of Significant Accounting Policies

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

1) Statement of compliance

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

2) Basis of preparation

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

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

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

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

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

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

3) Foreign currency transactions

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

4) Cash and cash equivalents

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

5) Financial instruments

(a) Financial assets

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

i. Financial assets at fair value through profit or loss

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

ii. Available-for-sale financial assets—net

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

iii. Securities under repurchase/resell agreements and debt instruments

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

iv. Loans, receivables and allowance for bad debts

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

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

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

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

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

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

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

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

(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, and the supervisors must be notified for acknowledgement. Collections after write off shall be reversed from the allowance for bad debt expense.

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

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

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

v. Financial assets carried at cost

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

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

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

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

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

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

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

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

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

vii. Financial asset impairment

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

(Continued)

The aforesaid objective evidence includes:

i) Significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

viii. Derecognition of financial assets

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

(b) Financial liabilities

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

i. Financial liabilities at fair value through profit or loss

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

ii. Financial liabilities at amortized cost

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

(Continued)

iii. Financial debentures

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

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

iv. Derecognition of a financial liability

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

(c) Derivatives and hedging accounting

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

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

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

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

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

(Continued)

6) Non-financial asset impairment

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

7) Lease classification

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

The Bank classifies all its leases as operating leases.

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

8) Property, plant and equipment

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

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

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

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

(Continued)

9) Intangible assets

(a) Computer software

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

(b) Goodwill

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

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

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

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

11) Provisions

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

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

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

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

The Bank shall not recognize provisions for future operating losses.

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

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

(Continued)

12) Revenue and expense recognition

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

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

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

13) Employee benefit

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

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

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

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

(Continued)

14) Share-based compensation

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

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

15) Income tax

Income tax expense include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profits or loss. 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 asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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.

(Continued)

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

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

16) Earnings per share of common stock

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

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

When preparing financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and the IFRSs endorsed by the FSC, the Bank is required to make judgments, estimates, and assumptions on valuation of below assets that may causes differences between actual results and estimates. Subsequently, it affects the adoption of accounting policies, reported amounts of assets, liabilities, revenues, and expenses.

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

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

1) Impairment of loans and advances

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

(Continued)

2) Valuation of financial instruments

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

3) Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires management's subjective judgment and estimate, including the future revenue growth and profitability, and feasible tax planning strategies. 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(22) for further description of the recognition of deferred tax assets.

4) Goodwill impairment

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

(6) Disclosures of Significant Accounts

1) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 3,973,432	3,668,992
Checks for clearing	101,654	10,622
Deposits with other banks	2,364,017	2,584,034
Deposits with other banks—affiliates	7,729,669	3,427,047
Total	$ 14,168,772	9,690,695

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, 2016	December 31, 2015
Cash and cash equivalents reported in the statement of balance sheets	$	14,168,772	9,690,695
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		78,963,766	43,466,037
Securities purchased under resell agreements and debt instruments qualifying for cash and cash equivalents under the definition of IAS 7		3,196,000	2,499,824
Cash and cash equivalents reported in the statement of cash flows	$	**96,328,538**	**55,656,556**

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

		December 31, 2016	December 31, 2015
Required reserve—checking account	$	5,250,444	8,335,304
Required reserve—demand account		11,537,649	13,222,290
Required reserve—foreign currency		225,985	230,608
Required reserve—settlement account		1,518,165	1,200,718
Call loans to banks		17,599,251	6,045,173
Call loans to banks—affiliates		61,924,729	54,979,105
Trade finance receivables		4,052,976	3,006,417
Total	$	**102,109,199**	**87,019,615**

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

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

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

(Continued)

3) Financial instruments at fair value through profit or loss

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

	December 31, 2016	December 31, 2015
Interest-rate instruments		
Government bonds	$ 4,244,688	5,180,278
Corporate bonds	3,826,404	5,584,330
Subtotal	8,071,092	10,764,608
Derivative financial assets		
Interest rate swap	2,609,676	2,741,951
Interest rate option	51,038	138,599
Spot/forward/swap	11,254,118	6,400,444
Cross currency swap	1,102,504	255,610
Foreign exchange option	3,381,213	8,650,723
Commodity swap	61,038	34,007
Commodity option	-	28,192
Subtotal	18,459,587	18,249,526
Total	$ 26,530,679	29,014,134

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

	December 31, 2016	December 31, 2015
Derivative financial liabilities		
Interest rate swap	$ 2,458,160	2,547,161
Interest rate option	3,135	90,850
Spot/forward/swap	7,222,933	4,828,429
Cross currency swap	1,496,854	448,498
Foreign exchange option	3,640,665	9,081,513
Commodity swap	61,092	34,090
Commodity option	-	28,427
Total	$ 14,882,839	17,058,968

4) Derivative financial instruments for hedging

Derivative financial assets for hedging were as follows:

	December 31, 2016	December 31, 2015
Fair value hedge:		
Interest rate swap	$ 30,347	56,738
Cash flow hedge:		
Interest rate swap	-	1,628
Cross currency swap	110,320	23,065
Total	$ 140,667	81,431

(Continued)

Derivative financial liabilities for hedging were as follows:

	December 31, 2016	December 31, 2015
Cash flow hedge:		
Interest rate swap	$ 14,960	32,480
Cross currency swap	25,225	-
Total	$ 40,185	32,480

(a) Fair value hedge

A fair value hedge is the hedging of the hedged items exposure to change in fair value of recognized assets or liabilities that are attributable to particular hedged risks that could affect profit or loss. As of December 31, 2016 and 2015, 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, 2016**	**Contract type**	**December 31, 2016**
Available-for-sale financial assets:			
Government bonds	$ (85)	Interest rate swap	$ 70
Financial debentures	(27,916)	Interest rate swap	30,277
	$ (28,001)		$ 30,347

Hedged items		Hedging instruments	
Underlying instruments	**December 31, 2015**	**Contract type**	**December 31, 2015**
Financial debentures	$ (57,904)	Interest rate swap	$ 56,738

For the years ended December 31, 2016 and 2015, net losses and gains on the hedging derivative financial instruments listed above amounted to $38,893 thousand and $9,410 thousand, respectively, and net gains from the hedged risk of the hedged items amounted to $38,490 thousand and $10,736 thousand, respectively.

(b) Cash flow hedge

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

(Continued)

Hedged items	Financial instruments designated as hedging instruments	Fair value December 31, 2016	Fair value December 31, 2015
Discounts and loans—floating interest rate	Interest rate swap	$ (14,960)	(30,852)
Deposits and remittances—floating interest rate	Cross currency swap	-	23,065
Deposits and remittances—fixed interest rate	Cross currency swap	85,095	-
Total		$ 70,135	(7,787)

5) Securities purchased under resell agreements and debt instruments

	December 31, 2016	December 31, 2015
Securities purchased under resell agreements	$ 3,196,000	2,499,824
Face value of debt instruments	$ 3,200,000	2,500,000
Interest rate	0.33%~0.40%	0.38%
Last settlement date	2017.1.12	2016.1.8
Resell price	$ 3,196,442	2,500,026

6) Receivables—net

	December 31, 2016	December 31, 2015
Accounts receivable factoring	$ 9,965,494	13,241,437
Credit cards accounts receivable	4,330,897	4,866,432
Accounts receivable	587,871	646,178
Interest receivable	1,458,049	1,707,509
Acceptances receivable	363,558	219,471
Accounts receivable—related parties	1,716,910	1,218,422
Other	616,515	293,088
Subtotal	19,039,294	22,192,537
Less: allowance for bad debts—receivables	435,408	302,009
Total	$ 18,603,886	21,890,528

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

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

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

(Continued)

Item		December 31, 2015 Receivables	December 31, 2015 Allowance for bad debts
With objective evidence of impairment	Individual assessment of impairment	$ 265,349	272,668
	Portfolio assessment of impairment	532,070	7,046
Without objective evidence of impairment	Portfolio assessment of impairment	21,395,118	22,295
Total		$ 22,192,537	302,009

7) Discounts and loans—net

	December 31, 2016	December 31, 2015
Bills negotiations and bills and notes discounted	$ 682,626	482,760
Short-term loans and overdrafts	47,384,080	61,009,087
Short-term secured loans	12,324,192	5,091,227
Medium-term loans	31,478,466	36,443,142
Medium-term secured loans	5,928,623	10,681,659
Long-term loans	7,047,005	8,724,055
Long-term secured loans	166,433,552	185,017,613
Overdue loans	1,158,416	594,738
Subtotal	272,436,960	308,044,281
Add: premium adjustments on discounts and loans	44,738	108,687
Less: allowance for bad debts	5,200,241	4,913,028
Total	$ 267,281,457	303,239,940

As of December 31, 2016 and 2015, the Bank's loan with floating rate mentioned above has adopted cash flow hedge in order to reduce the impact of cash flow that was affected by interest rate fluctuation.

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

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

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

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

Item		December 31, 2015 Discounts and loans	December 31, 2015 Allowance for bad debts
With objective evidence of impairment	Individual assessment of impairment	$ 3,680,376	1,718,336
	Portfolio assessment of impairment	3,719,279	55,152
Without objective evidence of impairment	Portfolio assessment of impairment	300,644,626	3,139,540
Total		$ 308,044,281	4,913,028

As of December 31, 2016 and 2015, the amounts of outstanding loans with interest charges suspended amounted to $1,158,416 thousand and $594,738 thousand, respectively. The amounts of interest not accrued derived from the aforementioned loans were $54,097 thousand and $40,704 thousand, respectively.

8) Available-for-sale financial assets—net

	December 31, 2016	December 31, 2015
Negotiable certificates of deposit	$ 86,864,209	113,783,454
Government bonds	64,613,270	62,615,688
Financial debentures	6,401,769	6,385,341
Total	$ 157,879,248	182,784,483
Marked-to-market adjustments for hedged assets included in the above balance	$ (85)	-

9) Other financial assets—net

	December 31, 2016 Percentage of ownership %	December 31, 2016 Investment cost	December 31, 2016 Book value	December 31, 2015 Percentage of ownership %	December 31, 2015 Investment cost	December 31, 2015 Book value
Financial assets carried at cost:						
Taiwan Small and Medium Enterprises Development Corp.	4.84	$ 29,000	29,000	4.84	29,000	29,000
Financial Information Service Co., Ltd.	1.14	45,500	45,500	1.14	45,500	45,500
TSC Bio Venture Management, Inc.	5.00	8,505	8,505	5.00	10,632	10,632
Liyu Venture Investment, Inc.	4.76	7,949	7,949	4.76	8,549	8,549
Windance Co., Ltd.	2.73	188,500	188,500	2.73	188,500	188,500
Taiwan Asset Service Corporation	2.94	50,000	50,000	2.94	50,000	50,000
Yang Guang Asset management Company	1.42	849	849	1.42	849	849
Subtotal		330,303	330,303		333,030	333,030
Less: accumulated impairment		-	202,941		-	202,941
		330,303	127,362		333,030	130,089
Restricted assets-debt instruments			14,284,345			10,372,019
Overdue receivable			326,181			-
Less: allowance for bad debts-overdue receivable			326,181			-
			$ 14,411,707			10,502,108

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

For the years ended December 31, 2016 and 2015, the cash dividends from financial assets carried at cost recorded under net other non-interest income were $17,552 thousand and $17,408 thousand, respectively.

On November 5, 2015, the Bank sold 630,000 shares of Taipei Forex Inc. and recognized $17,823 thousand gain on sale under net other non-interest income. In addition, on December 24, 2015, the Bank sold 570,734 shares of Taiwan Depository and Clearing Corporation and recognized $23,726 thousand gain on sale under net other non-interest income.

10) Allowance for bad debts and provision for guarantee liability

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

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

	2015				
	Allowance for bad debt				
	Receivables	Discounts and loans	Other financial assets	Provision for guarantee	Total
Beginning balance	$ 322,995	4,450,587	-	109,035	4,882,617
Add: bad debt expense and guarantee liability provision	58,921	1,104,871	-	(78,241)	1,085,551
Bad debt recovery	106,070	508,534	-	-	614,604
Less: write-of	138,361	950,609	-	-	1,088,970
Exchange rate and others	47,616	200,355	-	-	247,971
Ending balance	$ 302,009	4,913,028	-	30,794	5,245,831

11) Property, plant and equipment—net

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

December 31, 2015		Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$	2,915,217	-	41,865	2,873,352
Buildings		3,062,698	1,193,649	-	1,869,049
Office equipment		558,270	532,385	-	25,885
Leasehold improvements		689,138	609,110	-	80,028
Other equipment		600,812	523,538	-	77,274
Total	$	7,826,135	2,858,682	41,865	4,925,588

Change in cost movement:

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

		January 1, 2015	Increase	Decrease	Reclassify	December 31, 2015
Land	$	3,161,179	-	245,962	-	2,915,217
Buildings		3,126,077	-	63,379	-	3,062,698
Office equipment		611,538	2,816	56,084	-	558,270
Leasehold improvements		629,179	99,668	39,709	-	689,138
Other equipment		643,845	6,962	49,995	-	600,812
Total	$	8,171,818	109,446	455,129	-	7,826,135

Change in accumulated depreciation:

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

		January 1, 2015	Increase	Decrease	Reclassify	December 31, 2015
Buildings	$	1,129,583	91,996	27,930	-	1,193,649
Office equipment		554,346	29,909	51,870	-	532,385
Leasehold improvements		534,490	114,329	39,709	-	609,110
Other equipment		519,438	54,095	49,995	-	523,538
Total	$	2,737,857	290,329	169,504	-	2,858,682

(Continued)

Change in accumulated impairment:

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

	January 1, 2015	Increase	Decrease	December 31, 2015
Land	$ 25,600	16,265	-	41,865
Buildings	1,169	-	1,169	-
Total	$ 26,769	16,265	1,169	41,865

12) Intangible assets—net

	December 31, 2016	December 31, 2015
Goodwill	$ 3,156,048	3,156,048

Change in intangible assets:

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

	January 1, 2015	Increase	Decrease	December 31, 2015
Goodwill	$ 3,156,048	-	-	3,156,048
Computer software	27	-	27	-
Total	$ 3,156,075	-	27	3,156,048

13) Other assets—net

	December 31, 2016	December 31, 2015
Refundable deposits	$ 296,295	449,376
Derivatives collateral	533,330	9,385,543
Prepaid fee	146,344	106,348
Other	331,999	1,437
Total	$ 1,307,968	9,942,704

(Continued)

14) Deposits from the Central Bank and banks

	December 31, 2016	December 31, 2015
Deposits from banks	$ 1,074,427	1,082,806
Deposits from banks—affiliates	993,555	1,623,277
Overdrafts on banks	345,109	59,795
Overdrafts on banks—affiliates	-	111,625
Call loans from banks	3,389,760	12,956,995
Call loans from banks—affiliates	25,609,204	12,145,238
Total	$ 31,412,055	27,979,736

15) Payables

	December 31, 2016	December 31, 2015
Accounts payable	$ 4,330	19,228
Accrued interest	344,627	351,643
Accrued expenses	1,856,178	1,738,056
Collection payable	43,987	111,370
Acceptances payable	363,558	219,471
Inter-branch check clearing payable	43,712	172,760
Temporary receipts in advance	64,710	42,002
Unsettled trade payable	255,211	5,100,000
Other	697,148	726,164
Total	$ 3,673,461	8,480,694

16) Deposits and remittances

	December 31, 2016	December 31, 2015
Checking accounts deposits	$ 2,626,583	4,317,267
Demand deposits:		
Demand deposits	189,010,368	189,396,025
Saving account deposits	133,406,929	129,183,137
Subtotal of demand deposits	322,417,297	318,579,162
Time deposits:		
Time deposits	126,412,106	130,150,713
Time savings deposits	41,046,415	44,460,114
Subtotal of time deposits	167,458,521	174,610,827
Remittances	104,532	81,745
Total	$ 492,606,933	497,589,001

As of December 31, 2016 and 2015, the Bank's foreign currency time deposits with floating and fixed rate mentioned above has adopted cross currency swap of cash flow hedge in order to reduce the impact of cash flow that was affected by interest rate and foreign exchange rate fluctuation.

(Continued)

17) Financial debentures—net

As of December 31, 2016 and 2015, details of financial debentures issued by the Bank were as follows:

Bond	Conditions for issuance	December 31, 2016	December 31, 2015
91-1A	5 year term, interest accrued and paid semi annually, annual interest rate for the first 3 years is 4.25%, and 4.5% for the last 2 years; maturity date: July 19, 2007	$ 1,000	1,000
94-1	No maturity date, interest accrued and paid semi annually, based on the average one year regular floating rate of the nine largest banks plus 1.493%	2,100	2,100
94-2	No maturity date, interest accrued and paid semi annually, based on the average one year regular floating rate of the nine largest banks plus 1.493%	100	500
98-2	No maturity date, USD based, interest accrued and paid quarterly, annual interest rate from issuance date to June 11, 2015 is USD 3M LIBOR plus 3.33%, and USD 3M LIBOR plus 4.33% from June 11, 2015; Redeemed on March 11, 2016	-	4,941,605
98-3	No maturity date, USD based, interest accrued and paid quarterly, annual interest rate from issuance date to June 11, 2015 is USD 3M LIBOR plus 3.33%, and USD 3M LIBOR plus 4.33% from June 11, 2015; Redeemed on March 11, 2016	-	4,941,605
100-1D	5 year term, interest accrued and paid quarterly, annual interest rate is 1.45%; maturity date: May 19, 2016	-	6,150,000
100-1E	6 year term, interest accrued and paid quarterly, annual interest rate is 1.51%; maturity date: May 19, 2017	1,000,000	1,000,000
100-1F	7 year term, interest accrued and paid quarterly, annual interest rate is 1.60%; maturity date: May 19, 2018	2,550,000	2,550,000
100-1H	5 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, 2016	-	400,000
100-1I	7 year term, interest accrued and paid quarterly, TWD 90 day CP interest rate and TWD 90 day TIBOR interest rate from February 19, 2015 ; maturity date: May 19, 2018	4,000,000	4,000,000
100-2	5 year term, interest accrued and paid quarterly, annual interest rate is 1.451%; maturity date: June 8, 2016	-	500,000
100-3C	5 year term, interest accrued and paid quarterly, annual interest rate is 1.40%; maturity date: September 23, 2016	-	1,100,000
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
103-1	2 year term, USD based, interest accrued quarterly, interest paid annually, annual interest rate is USD 3M LIBOR plus 0.70%; maturity date: January 27, 2016	-	19,107,541
103-2	10 year term, USD based, interest accrued and paid semi annually, annual rate is 4.50%; maturity date: December 18, 2024	6,456,686	6,588,808
		16,009,886	53,283,159
Marked-to-market adjustment on hedged items		27,916	57,904
Total		$ 16,037,802	53,341,063

(Continued)

18) Other financial liabilities

	December 31, 2016	December 31, 2015
Structured deposits	$ 1,033,273	1,158,492

19) Provisions

	December 31, 2016	December 31, 2015
Provision for guarantee liability	$ 31,258	30,794
Provision for employee benefits	1,321,978	1,602,155
Provision for decommissioning, restoration and rehabilitation cost	111,436	149,418
Other miscellaneous provisions	17,896	9,040
Total	$ 1,482,568	1,791,407

20) Other liabilities

	December 31, 2016	December 31, 2015
Advance received from customers	$ 26,656	55,260
Deferred income	71,487	55,575
Guarantee deposits received	28,533	43,869
Tax payable	670,686	707,648
Derivatives collateral	870,489	2,446,420
Other	86,780	96,773
	$ 1,754,631	3,405,545

21) Employee benefits

(a) Defined contribution plan

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

For the years ended December 31, 2016 and 2015, the pension expense under defined contribution plan of the Bank amounted to $151,729 thousand and $164,528 thousand, respectively, recorded under operating expenses—employee benefits expense.

(b) Provision for employee benefits

i) Change in defined benefit obligation

	December 31, 2016	December 31, 2015
Defined benefit plan	$ 1,321,978	1,602,155

(Continued)

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

		December 31, 2016	December 31, 2015
Present value of defined benefits obligation	$	2,532,742	2,900,317
Less: fair value of defined benefits plan assets		1,210,764	1,298,162
Liability recognized in balance sheets	$	**1,321,978**	**1,602,155**

The Bank adopted the defined benefit plan, which contributes 4% 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.

ii) The percentage of plan assets were as follows:

Unit: %

	December 31, 2016	December 31, 2015
Cash	20.80	17.70
Stocks	47.20	54.60
Short-term notes	3.60	1.30
Bonds	28.40	26.40
Total	**100.00**	**100.00**

iii) Change in defined benefit obligation

The change in defined benefit obligation for the years 2016 and 2015 were as follows:

		2016	2015
DBO at beginning of period	$	2,900,317	3,213,605
Current service cost and interest cost		108,104	171,632
Remeasurements of the net defined benefit liability			
Actuarial gain–experience		(44,979)	(42,456)
Actuarial (gain) loss–financial assumption changes		(71,514)	28,127
Benefits paid from plan assets		(113,962)	(77,170)
Benefits paid directly by the Bank		(76,299)	(99,383)
Settlements		(170,740)	(294,038)
Termination benefits		1,815	-
DBO at end of period	$	**2,532,742**	**2,900,317**

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

iv) Change in plan assets

The change in defined benefit plan assets for the years 2016 and 2015 were as follows:

		2016	2015
Fair value of plan assets beginning of period	$	1,298,162	1,508,098
Interest income		12,162	21,183
Remeasurements of the net defined benefit assets			
Actuarial (loss) gain–return on plan assets (exclude interest)		(3,363)	18,073
Employers contributions		85,436	32,614
Benefit paid from plan assets		(113,962)	(77,170)
Settlements		(67,671)	(204,636)
Fair value of plan assets at end of period	$	**1,210,764**	**1,298,162**

v) Change in asset ceiling

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

vi) Recognized as profit and loss cost

The recognized as profit and loss cost for the years ended 2016 and 2015 were as follows:

		2016	2015
Current service cost	$	80,808	124,630
Net interest on the net defined benefit liability		15,134	25,819
Settlement gain		(40,072)	(20,743)
Termination benefits		1,815	-
	$	**57,685**	**129,706**

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

Recognized as other comprehensive income of remeasurements of defined benefit plan for the years 2016 and 2015 were as follows:

		2016	2015
Cumulated surplus at beginning of period	$	82,417	114,819
Recognized in current period		(113,130)	(32,402)
Cumulated surplus at end of period	$	**(30,713)**	**82,417**

viii) Primary actuarial assumptions

	2016	2015
Defined benefit plan discount rate	1.30 %	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 $97,061 thousand, which is expected to be paid within a year of its balance sheet date in 2016.

Weighted average duration of the defined benefit obligation is 9.1 years.

ix) The sensitivity analysis

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

As of December 31, 2016 and 2015, 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, 2016		
Discount rate	(110,418)	118,564
Salary increase rate	117,485	(110,482)
December 31,2015		
Discount rate	(132,080)	142,181
Salary increase rate	140,315	(131,655)

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

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

22) Income tax

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

For the years ended December 31, 2016 and 2015, the income tax expense and related accounts were as follows:

		2016	2015
Current income tax expense	$	108,074	166,695
Deferred income tax expense		502,294	110,409
Basic income tax		-	40,834
Income tax expense	$	610,368	317,938

As of December 31, 2016, and 2015, the current tax assets of the Bank amounted to $284,209 thousand and $239,692 thousand, respectively, the current tax liabilities of the Bank amounted to $17,998 thousand and $99,875 thousand, respectively.

(Continued)

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

		2016	2015
Income tax from profit before tax at statutory rate	$	132,156	298,676
Permanent difference		6,565	(155,561)
Prior-year income tax adjustments		402,012	35,695
Basic income tax		-	40,834
Other adjustments per tax regulation		69,635	98,294
Income tax expense	$	610,368	317,938

For the years ended December 31, 2016 and 2015, the components of tax expense (benefit) recognized as other comprehensive income were as follows:

		2016	2015
Item that may not to be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plan	$	19,232	5,508
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets recognized	$	(66,919)	(40,713)
Change in fair value of cash flow hedges recognized		(6,532)	(29,437)
Total	$	(73,451)	(70,150)

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

		2016	2015
Bad debt expense and guarantee liability provision	$	(28,912)	(45,419)
Depreciation expense		1,298	(10,191)
Impairment loss on assets		-	2,659
Expenses from share-based payments		(4,912)	(3,690)
Employee benefits		28,399	12,061
Provisions		(13,312)	8,072
Deferred income		74,732	64,007
Loss carryforwards		401,363	49,046
Unrealized interest income on financial assets		(10,015)	(5,886)
Amortization of goodwill		53,653	53,653
Exclusivity fee income		-	(13,903)
	$	502,294	110,409

(Continued)

The Bank's temporary difference of deferred tax components, based on the 17% tax rate for December 31, 2016 and 2015 were as follows:

		December 31, 2016	December 31, 2015
Deferred tax assets:			
Bad debt expense and guarantee liability provision	$	378,719	349,807
Depreciation expense		28,861	30,159
Impairment loss on assets		34,500	34,500
Expenses from share-based payments		36,775	31,863
Employee benefits		224,734	272,365
Provisions		26,821	13,509
Deferred income		27,114	101,846
Loss carryforwards		1,001,212	1,402,575
Unrealized loss on cash flow hedge		8,280	1,748
Total	$	1,767,016	2,238,372
Deferred tax liabilities:			
Unrealized interest income on financial assets	$	76,223	86,238
Amortization of goodwill		429,223	375,570
Land value increment tax		120,468	123,716
Unrealized gain on available-for-sale financial assets		19,830	86,749
Total	$	645,744	672,273

The movements of deferred tax items were as follows:

		2016	2015
Beginning balance	$	1,566,099	1,598,403
Recognized in current period profit and loss		(502,294)	(110,409)
Land value increment tax		3,248	13,463
Recognized in other comprehensive income		54,219	64,642
Ending balance	$	1,121,272	1,566,099

The income tax returns of the prior years have been assessed up to the year 2014.

23) Information of imputation credit account

		December 31, 2016	December 31, 2015
Imputation credit account	$	290,340	156,765

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

	2016 (estimated)	2015 (actual)
Tax creditable ratios of distribution of retained earnings to R.O.C. residents	10.69 %	6.90 %

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

24) Stockholders' equity

(a) Capital

As of December 31, 2016, the Bank's authorized capital was $30,000,000 thousand, representing 3,000,000 thousand shares with par value of NTD 10 per share, and issued capital $29,105,720 thousand, representing 2,910,572 thousand common shares.

(b) Capital surplus

The R.O.C. Company Act as amended in January 2012 requires capital surplus to be used to offset an accumulated deficit before capitalization to shareholders' equity as realized capital surplus or distribution of cash dividends. The aforementioned realized capital surplus includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Bank. In accordance with "Regulations Governing the Offering and Issuance of Securities", the amount of capital surplus capitalized each year may not exceed 10 percent (10%) of the Bank's issued share capital. In January 2015, the Bank performed checks on the unpresented shareholders dividends for the 2005 and 2006 fiscal year, prior to its acquisition of Hsinchu International Bank Co., Ltd, the unpresented dividend amounted to $8,740 thousands. The amount was transferred to capital surplus as per regulatory requirements. In accordance with Judicial Yuan Shi-Zi No. 1476, the shareholders' rights to these dividends will prescribe in 5 years should these rights not being exercised by the shareholders. Further in terms of Cai-Shui-Zi No. 820481127 published on December 22, 1993, prescribed unpresented dividend obligations should be classified as capital surpluses.

(c) Legal reserve

Whenever the Bank generates a profit in accordance with "The Banking Act of The Republic of China". A bank, at the time of distributing its earnings for each fiscal year, shall set aside thirty percent (30%) of its after tax earnings as a legal reserve, until the legal reserve equals to the capital. However, unless and until the accumulated legal reserve equals the Bank's paid in capital, 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 and approved by the stockholders' meeting. The board of directors approved the distribution of the 2015 and 2014 earnings on June 28, 2016, and June 29, 2015, and appropriated legal reserve of $431,695 thousand and $979,926 thousand, respectively.

(Continued)

(d) Special reserve

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

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

(e) Other equity interest

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

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

	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total
January 1, 2015	$ 728,684	135,187	863,871
Available-for-sale financial assets—net			
—Valuation adjustment	(104,559)	-	(104,559)
Cash flow hedge			
—Unrealized gain	-	(143,721)	(143,721)
December 31, 2015	$ 624,125	(8,534)	615,591

(Continued)

(f) Dividend policy and appropriation of earnings

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

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

	2015
Legal reserve appropriated	$ 431,695
Cash dividends of ordinary share	1,034,181
Total	$ 1,465,876

Before the amendment to the Articles of Incorporation approved by the board of directors on November 24, 2015, whenever the Bank generates a profit, 30 percent of its net income is appropriated as legal reserve after the deduction of income tax. Any special reserve would be set aside if necessary for the Bank's ongoing operations. The remaining balance, if any, is distributed as follows:

i. Shareholders' dividends and bonus: 99.99%

ii. Employee bonus: 0.01%

The aforementioned special reserve shall be allocated as required by law or when proposed by the board of directors and resolved at the shareholders' meeting. The amount for employee bonus to be allocated may be retained either in whole or in part without allocation when proposed by the board of directors and resolved at the shareholders' meeting as the actual situation may justify.

The estimated amount of staff bonus accrued was based on the possibility of bonus distribution and estimated bonus distribution and resolution approved by the board of directors. Nevertheless, in the event of difference in the amount actually distributed upon resolution of shareholders' meeting and the estimated figures, this difference shall be identified as changes in accounting estimate and recognized as profit or loss for the current period.

On June 29, 2015, the board of directors, representing shareholders, approved the distribution of retained earnings and distributed cash dividends for 2014 were as follows:

	2014
Legal reserve appropriated	$ 979,926
Cash dividends of ordinary share	2,728,080
Total	$ 3,708,006

Furthermore, the board of directors approved the distribution of bonus to employees for $229 thousand; no differences between the actual and the estimated distributed in recorded.

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

(Continued)

25) Share-based payments

The SC PLC Group operates a number of share-based arrangements for its executive directors and employees. For the years ended December 31, 2016 and 2015, the share-based payment schemes adopted by the Bank were as follows:

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

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

The option movements of the AESP were as follows:

	2016 Units	2015 Units
Beginning balance	471,278	466,480
Add: granted	60,928	280,610
Less: exercised	-	8,448
lapsed	150,637	267,364
Ending balance	381,569	471,278

For the years ended December 31, 2016 and 2015, the costs of the AESP charged to profits or losses were $10,422 thousand and $15,605 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:

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

	2015
Grant date	October 7
Share price at grant date	£ 7.41
Exercise price	£ 5.86
Vesting period (years)	3
Expected volatility (%)	28.00
Expected option life (years)	3.33
Risk-free rate (%)	0.9
Expected dividend yield (%)	6.30
Fair value	£ 1.40

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.

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

Restricted Share Awards ("RSA") which are made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit 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 buy-outs, and is in line with market practice. In line with similar plans operated by the competitors of the Bank, RSA are not subject to an annual limit and do not have any performance measures.

The option movements of the RSA were as follows:

	2016 Units	2015 Units
Beginning balance	141,434	121,384
Add: granted	22,561	49,957
dividend	672	2,834
Less: exercised	22,139	19,095
lapsed	9,174	13,646
Ending balance	**133,354**	**141,434**

For the years ended December 31, 2016 and 2015, the costs of the RSA charged to profits or losses were $16,063 thousand and $22,989 thousand, respectively, recorded under operating expenses—employee benefits expense.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

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

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

	2015			
Grant date	December 1	September 22	June 17	March 19
Share price at grant date	£ 5.57	£ 6.73	£ 10.28	£ 10.51
Vesting period (years)	2/3	2/3 1/2/3/4 2/3/4	2/3	2/3
Expected dividend yield (%)	6.40	6.40	7.00	7.00
Fair value	£ 4.77	£ 5.77	£ 8.68	£ 8.88

(Continued)

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

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

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

	2016 Units	2015 Units
Beginning balance	65,524	100,182
Add: granted	-	3,146
Less: exercised	1,883	6,371
lapsed	22,661	31,433
Ending balance	**40,980**	**65,524**

For the years ended December 31, 2016 and 2015, the costs of the PSA (PSP) reversed to profit or loss were $3,400 thousand and $3,721 thousand, respectively, recorded under operating expenses—employee benefits expense.

	2015
Grant date	March 19
Share price at grant date	£ 10.51
Vesting period (years)	5
Fair value (TSR)	£ 1.08
Fair value (EPS)	£ 2.65
Fair value (RoRWA)	£ 2.65

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

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

The option movements of the SRSS were as follows:

	2016 Units	2015 Units
Beginning balance	12,027	16,797
Add: granted	-	577
Less: exercised	122	5,347
Ending balance	**11,905**	**12,027**

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

(e) Long-term Incentive Plan Awards

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

The option movements of the LTIP were as follows:

	2016 Units	2015 Units
Beginning balance	-	-
Add: granted	51,263	-
Ending balance	**51,263**	-

For the year ended December 31, 2016 and 2015, no related cost of stock warrants was recorded.

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

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

26) Earnings per share

	2016	2015
Net income attributable to common stockholders (after tax)	$ 167,018	1,438,982
Common stock (in thousands)	$ 2,910,572	2,910,572
Basic EPS (in dollars)	$ 0.06	0.49

(Continued)

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.

27) Net interest income

		2016	2015
Interest income			
Interest income, discounts and loans	$	7,061,118	8,345,077
Interest income, accounts receivable factoring		134,301	214,899
Interest income, due from banks		707,582	1,367,038
Interest income, available-for-sale financial assets		1,272,484	1,757,281
Interest income, credit card recurrence		264,080	323,295
Interest income, other		286,124	228,762
Subtotal		9,725,689	12,236,352
Interest expense			
Interest expense, deposits		2,746,649	3,715,073
Interest expense, due to banks		222,812	263,531
Interest expense, financial debentures		584,419	1,088,574
Interest expense, other		13,891	37,399
Subtotal		3,567,771	5,104,577
Total	$	6,157,918	7,131,775

28) Net service fee income

		2016	2015
Service fee			
Service fee, loan	$	87,959	136,644
Service fee, agency		5,650	6,696
Service fee, insurance commission		1,758,772	1,771,426
Service fee, remittance and interbank		111,606	122,252
Service fee, guarantee, import, export and acceptance payable		57,066	75,850
Service fee, credit card		300,346	340,028
Service fee, trust		1,747,117	1,955,254
Service fee, factoring		21,283	82,533
Service fee, underwriting		287,917	3,333
Service fee, other		155,689	55,023
Subtotal		4,533,405	4,549,039
Service charge			
Service charge, interbank		163,138	206,140
Service charge, agency		124,559	126,898
Service charge, custodian		112,434	111,320
Service charge, other		122,021	85,801
Subtotal		522,152	530,159
Total	$	4,011,253	4,018,880

(Continued)

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

	2016	2015
Gain (loss) on disposal		
Interest-rate instruments	$ 70,791	165,098
Derivative financial instruments	(49,985)	1,660,831
Subtotal	20,806	1,825,929
Gain (loss) on valuation		
Interest-rate instruments	(52,065)	22,498
Derivative financial instruments	2,293,654	(711,016)
Subtotal	2,241,589	(688,518)
Interest income	42,295	94,477
Total	$ 2,304,690	1,231,888

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

	2016	2015
Profit on sale—debt instruments	$ 59,642	77,426
Profit on sale—equity instruments	-	6,465
Total	$ 59,642	83,891

31) Net other non-interest income

	2016	2015
Administrative support service income	$ 626	2,838
Net (loss) gain on disposal of assets	(29,387)	91,903
Gain on financial assets carried at cost	17,552	58,957
Rental income	11,542	12,703
Net (loss) gain on fair value hedge	(403)	20,146
Other	14,482	10,480
Total	$ 14,412	197,027

32) Impairment losses on assets

	2016	2015
Impairment loss—land	$ 486	16,265
Gain on reversal of impairment loss—buildings	-	(767)
Total	$ 486	15,498

33) Bad debt expense and guarantee liability provision

	2016	2015
Bad debt expense	$ 1,469,349	1,163,792
Guarantee liability provision (reversal)	464	(78,241)
Total	$ 1,469,813	1,085,551

(Continued)

34) Employee benefits expense

		2016	2015
Salary expense	$	4,167,467	4,373,428
Employee insurance		298,096	330,386
Pension			
Defined contribution plan		151,729	164,528
Defined benefit plan		57,685	129,706
Other		374,056	340,684
Total	$	5,049,033	5,338,732

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 years ended December 31, 2016 was $78 thousand, recorded under operating expenses—employee benefits expense. Any difference between the actual and estimated distributed bonus in 2017 shall be treated as changes in accounting estimates and recognized as profit or loss in 2017.

The accrued employee's remuneration of the Bank for the year ended December 31, 2015 was $160 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, 2016 and 2015, the average numbers of the Bank's employees were 3,371 and 3,732, respectively.

35) Depreciation and amortization expenses

		2016	2015
Depreciation expense			
Buildings	$	91,717	91,996
Office equipment		21,007	29,909
Leasehold improvements		41,617	114,329
Other equipment		46,645	54,095
Subtotal of depreciation		200,986	290,329
Computer software amortization		-	27
Total	$	200,986	290,356

(Continued)

36) Other general and administrative expenses

		2016	2015
Rental expense	$	535,905	514,255
Office supplies		85,686	109,982
Postage		177,308	205,446
Repairs and maintenance		246,149	177,043
Advertising expense		188,124	167,376
Utilities fee		87,735	103,758
Taxes		563,130	759,358
Professional service fee		86,613	100,457
Operational and advisory service fee		1,012,446	1,005,849
Consulting and technical support service fee		287,723	530,161
Wholesale banking business service fee		195,000	325,669
Building management fee		124,110	135,035
Computer management fee		313,816	327,108
Other		828,231	788,284
Total	$	4,731,976	5,249,781

37) Disclosure of financial instruments

(a) Financial instruments measured at fair value

i. Valuation of financial instruments measured at fair value:

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

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

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

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

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

The Bank does not have level 3 financial instruments.

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

The Bank does not have level 3 financial instruments.

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

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

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

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

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

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

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

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

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

Financial instruments at fair value	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments:				
Assets:				
Financial assets at fair value through profit or loss				
Debt instruments	$ 10,764,608	-	10,764,608	-
Available-for-sale financial assets—net				
Debt instruments	182,784,483	-	182,784,483	-
Other financial assets—net				
Restricted assets-debt instruments	10,372,019	-	10,372,019	-
Derivative financial instruments:				
Assets:				
Financial assets at fair value through profit or loss	18,249,526	12,183	18,237,343	-
Derivative financial assets for hedging—net	81,431	-	81,431	-
Liabilities:				
Financial liabilities at fair value through profit or loss	17,058,968	111,281	16,947,687	-
Derivative financial liabilities for hedging—net	32,480	-	32,480	-

(Continued)

(b) Financial instruments measured at amortised cost

i. Valuation of financial instruments measured at amortised cost:

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

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

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

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

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

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

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

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

Financial assets	December 31, 2015 Book value	Fair value
Cash and cash equivalents	$ 9,690,695	9,690,695
Due from the Central Bank and call loans to banks	87,019,615	87,019,707
Securities purchased under resell agreements and debt instruments	2,499,824	2,647,011
Receivables—net	21,890,528	21,890,528
Discounts and loans—net	303,239,940	303,227,995
Other financial assets—net		
Financial assets carried at cost	130,089	130,089

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

Financial liabilities	December 31, 2015 Book value	Fair value
Deposits from the Central Bank and banks	$ 27,979,736	27,981,270
Payables	8,480,694	8,480,694
Related parties payable	12,335,869	12,335,869
Deposits and remittances	497,589,001	497,727,955
Financial debentures—net	53,341,063	53,396,410
Other financial liabilities	1,158,492	1,158,492

(Continued)

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

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

Financial instruments measured at amortised cost	December 31, 2015 Book value	Fair value Level 1	Level 2	Level 3	Total
Non-derivative financial instruments:					
Assets:					
Cash and cash equivalents	$ 9,690,695	-	9,690,695	-	9,690,695
Due from the Central Bank and call loans to banks	87,019,615	-	87,019,707	-	87,019,707
Securities purchased under resell agreements and debt instruments	2,499,824	-	2,647,011	-	2,647,011
Receivables－net	21,890,528	-	21,890,528	-	21,890,528
Discounts and loans－net	303,239,940	-	19,000,000	284,227,995	303,227,995
Other financial assets－net					
Financial assets carried at cost	130,089	-	-	130,089	130,089
Liabilities:					
Deposits from the Central Bank and banks	27,979,736	-	27,981,270	-	27,981,270
Payables	8,480,694	-	8,480,694	-	8,480,694
Related parties payable	12,335,869	-	12,335,869	-	12,335,869
Deposits and remittances	497,589,001	-	497,727,955	-	497,727,955
Financial debentures－net	53,341,063	-	53,396,410	-	53,396,410
Other financial liabilities	1,158,492	-	1,158,492	-	1,158,492

(c) Information on financial risk

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

(Continued)

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

i. Market risk

i) Strategy and procedure of market risk management

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

ii) Market risk management organization and structure

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

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

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

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

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

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

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

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

	2016			2015		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Foreign exchange VaR	$ 4,860	11,533	1,145	3,538	8,192	1,095
Interest rate VaR	50,710	66,716	26,394	36,570	53,778	26,591
Risk rate VaR	51,038	67,165	26,959	36,773	53,978	26,914

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

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

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

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

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

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

v) Method used for regulatory capital calculation

Standardized Approach / Delta-Plus for Options.

vi) Exchange rate risk exposure information

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

	December 31, 2016			December 31, 2015		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Long position						
USD	$18,623,487	32.283	601,230,016	16,096,051	32.944	530,268,897
CNY	25,142,477	4.637	116,596,332	20,292,976	5.075	102,985,830
EUR	1,459,586	33.870	49,436,211	841,544	35.970	30,269,568
JPY	90,136,985	0.275	24,818,870	91,124,869	0.274	24,932,900
HKD	4,816,118	4.163	20,049,416	433,513	4.251	1,842,733
Short position						
USD	18,575,830	32.283	599,691,496	16,135,635	32.944	531,572,928
CNY	25,133,334	4.637	116,553,935	20,305,972	5.075	103,051,785
EUR	1,463,353	33.870	49,563,810	841,498	35.970	30,267,916
JPY	90,146,108	0.275	24,821,382	91,201,776	0.274	24,953,943
HKD	4,819,926	4.163	20,065,268	428,843	4.251	1,822,885

i) Interest rate sensitivity information

A. Interest rate sensitivity analysis (NTD)

December 31, 2016

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

December 31, 2015

Item	Day 1 to 90 days	Day 91 to 180 days	Day 181 to 1 Year	Over 1 year	Total
Interest rate sensitive assets	$ 333,820,931	43,539,338	44,560,581	51,249,108	473,169,958
Interest rate sensitive liabilities	291,687,305	29,547,280	30,639,572	1,568,649	353,442,806
Interest rate sensitive gap	42,133,626	13,992,058	13,921,009	49,680,459	119,727,152
Net worth					42,228,512
Ratio of interest rate sensitive assets to liabilities (%)					133.87
Ratio of interest rate sensitive gap to net worth (%)					283.52

(Continued)

B. Interest rate sensitivity analysis (USD)

December 31, 2016 Units: in thousands of US Dollars

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

December 31, 2015 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	$ 3,445,197	84,179	315,412	-	3,844,788
Interest rate sensitive liabilities	5,301,816	213,720	271,153	206,225	5,992,914
Interest rate sensitive gap	(1,856,619)	(129,541)	44,259	(206,225)	(2,148,126)
Net worth					33,485
Ratio of interest rate sensitive assets to liabilities (%)					64.16
Ratio of interest rate sensitive gap to net worth (%)					(6,415.19)

ii. Operational risk

i) Strategy and procedure of operational risk management

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

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

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

ii) Operational risk management organization and structure

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

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

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

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

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

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

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

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

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

v) Method used for regulatory capital calculation

Basic Indicator Approach.

(Continued)

iii. Compliance and legal risk

Compliance and legal risks arise from the possibility that an entity may not be able to comply with regulations issued by the government, which results in a regulatory breach, and may not be able to enforce a contract against another party due to illegality, omissions, or incompleteness, which is likely to result in loss. 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 professional legal consulting and review services for internal operating guidelines and various kinds of transactions contracts. The two departments together are to make sure that the Bank follows relevant regulatory compliance and legal matters concerning the financial structure and operations of the Bank.

iv. Credit risk management

i) Credit risk strategy, goal, policy and procedure

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

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

A. Strategy and Goal

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

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

a. Balancing risk and reward: risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk tolerance;

b. Responsibility: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social, environmental and ethical responsibilities in taking risk to produce a return;

c. Accountability: risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported;

d. Anticipation: we seek to anticipate future risks and maximize awareness of all risks; and

e. Competitive advantage: we seek competitive advantage through efficient and effective risk management and control.

(Continued)

B. Policies and Procedures

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

ii) Credit risk management organization and structure

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

v) Method used for regulatory capital calculation

Standardized Approach.

vi) Maximum exposure to credit risk

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

	Maximum exposure to credit risk	
Off-balance-sheet items	**December 31, 2016**	**December 31, 2015**
Other guarantees	$ 2,712,222	2,808,832
Unused amount of irrevocable loan commitments	697,346	462,103
Unused amount of irrevocable letters of credit	886,991	1,154,935
Total	$ 4,296,559	4,425,870

(Continued)

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

vii) Concentrations of credit risk

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

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

A. By industry

	December 31, 2016	December 31, 2015
Individual	$ 177,217,124	202,309,525
Manufacturing	42,401,520	44,300,341
Transportation and warehousing	23,727,467	20,192,020
Commercial	12,164,211	10,284,335
Government	1,000,000	19,000,000
Financial industry	9,679,380	3,831,930
Other	6,247,258	8,126,130
Total	$ 272,436,960	308,044,281

B. By area

	December 31, 2016	December 31, 2015
Domestic	$ 230,261,980	268,897,803
Overseas	42,174,980	39,146,478
Total	$ 272,436,960	308,044,281

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

C. By collateral

	December 31, 2016	December 31, 2015
Unsecured	$ 79,934,290	99,150,444
Secured		
—Real estate	155,144,402	177,623,327
—Movable asset	20,784,795	20,429,692
—Debt instrument	13,664,512	8,600,624
—Other	2,908,961	2,240,194
Total	$ 272,436,960	308,044,281

viii) Credit quality and impairment analysis on financial asset

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

A. Credit quality analysis

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

	December 31, 2015					
				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	$ 3,981,501	101,098	783,833	251,764	29,341	4,585,327
Accounts receivable factoring	13,241,437	-	-	-	-	13,241,437
Discounts and loans						
Consumer banking	194,628,118	3,482,109	4,815,173	1,174,571	2,652,273	199,098,556
Wholesale banking	102,484,053	50,346	2,584,482	543,765	542,419	104,032,697
Available-for-sale financial assets	182,784,483	-	-	-	-	182,784,483
	$ 497,119,592	3,633,553	8,183,488	1,970,100	3,224,033	503,742,500

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

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

	December 31, 2015			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 96	3,981,399	6	3,981,501
Accounts receivable factoring	7,525,177	5,716,260	-	13,241,437
Discounts and loans				
Consumer banking	164,640,116	29,988,002	-	194,628,118
Wholesale banking	58,336,061	44,117,134	30,858	102,484,053
Total	$ 230,501,450	83,802,795	30,864	314,335,109

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

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

	December 31, 2015			
	Investment grade	Sub-investment grade	High risk grade	Total
Receivables				
Credit cards accounts receivable	$ 2,636	27,296	71,166	101,098
Discounts and loans				
Consumer banking	-	1,897,505	1,584,604	3,482,109
Wholesale banking	-	50,346	-	50,346
Total	$ 2,636	1,975,147	1,655,770	3,633,553

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

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

	December 31, 2015			
	Investment grade	Sub-investment grade	High risk grade	Total
Available-for-sale financial assets				
Debt instruments	$ 182,483,212	301,271	-	182,784,483

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

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

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

	December 31, 2015				
	Up to 1 month	**1-2 months**	**2-3 months**	**Over 3 months**	**Total**
Receivables					
Credit cards accounts receivable	$ 47,571	18,042	12,904	22,581	101,098
Discounts and loans					
Consumer banking	2,305,960	742,690	200,044	233,415	3,482,109
Wholesale banking	40,559	-	2,506	7,281	50,346
Total	$ 2,394,090	760,732	215,454	263,277	3,633,553

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

A. Asset quality of the Bank

Unit: in thousands of New Taiwan Dollars, %

Product			Period: December 31, 2016				
			Non-performing loan	**Loan balances**	**NPL ratio**	**Allowance for bad debts**	**Coverage ratio**
Wholesale Banking	Secured		4,454	36,892,150	0.01 %	70,277	1,577.84 %
	Unsecured		1,104,624	57,623,997	1.92 %	1,566,536	141.82 %
Consumer Banking	Mortgage		302,999	128,591,031	0.24 %	2,273,686	750.39 %
	Personal loan		194,795	27,640,856	0.70 %	1,230,052	631.46 %
	Others	Secured	65,691	19,723,026	0.33 %	52,089	79.29 %
		Unsecured	37,011	1,965,900	1.88 %	7,601	20.54 %
Total			1,709,574	272,436,960	0.63 %	5,200,241	304.18 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			17,116	4,330,897	0.40 %	244,436	1,428.11 %
Factoring loan receivable without recourse			-	9,965,494	- %	-	- %

(Continued)

Product			December 31, 2015 Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio
Wholesale Banking	Secured		3,096	31,109,192	0.01 %	73,433	2,371.87 %
	Unsecured		506,384	74,009,689	0.68 %	1,012,751	200.00 %
Consumer Banking	Mortgage		252,567	145,981,164	0.17 %	2,235,533	885.12 %
	Personal loan		252,511	31,324,377	0.81 %	1,528,377	605.27 %
	Others	Secured	6,303	23,940,036	0.03 %	35,827	568.41 %
		Unsecured	63,125	1,679,823	3.76 %	27,107	42.94 %
Total			1,083,986	308,044,281	0.35 %	4,913,028	453.24 %
			Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage ratio
Credit card			24,143	4,866,432	0.50 %	281,105	1,164.33 %
Factoring loan receivable without recourse			-	13,241,437	- %	-	- %

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, 2016 Loans that may be exempted from reporting as overdue loan	December 31, 2016 Receivables that may be exempted from reporting as overdue receivables	December 31, 2015 Loans that may be exempted from reporting as overdue loan	December 31, 2015 Receivables that may be exempted from reporting as overdue receivables
The amount under inter-bank debt relief program without default by debtors	$ 5,919	21,358	8,380	29,889
The amount under debt discharge program and rehabilitation program without default by debtors	337,599	49,012	419,195	60,224
	$ 343,518	70,370	427,575	90,113

(Continued)

B. Concentration of corporate credit risk for the bank

Units: in thousands of New Taiwan Dollars, %

December 31, 2016				
Rank	Industry classification of group enterprise		Outstanding credit	% of net assets
1	A Company	Other financial intermediation service not elsewhere classified	5,811,017	13.93 %
2	B Group	Aviation transportation	5,618,753	13.46 %
3	C Group	Other weaving industry	5,601,351	13.42 %
4	D Company	Copper metallurgy industry	3,874,011	9.28 %
5	E Group	Other computer peripheral manufacturing industry	3,797,787	9.10 %
6	F Group	Other transportation vehicles leasing	3,785,282	9.07 %
7	G Group	Ocean freight industry	3,496,553	8.38 %
8	H Group	Semiconductors packing and testing	3,013,235	7.22 %
9	I Group	Petrochemicals manufacturing	2,593,763	6.22 %
10	J Group	Aviation transportation	2,131,777	5.11 %

December 31, 2015				
Rank	Industry classification of group enterprise		Outstanding credit	% of net assets
1	B Group	Aviation transportation	6,426,338	14.85 %
2	C Group	Other weaving industry	5,089,217	11.76 %
3	H Group	Semiconductors packaging and testing	3,709,538	8.57 %
4	F Group	Other transportation vehicles leasing	3,079,582	7.12 %
5	K Group	Industrial plastic products manufacturing	2,637,943	6.10 %
6	J Group	Aviation transportation	2,434,724	5.63 %
7	L Group	Computers manufacturing	2,242,199	5.18 %
8	I Group	Petrochemicals manufacturing	2,233,945	5.16 %
9	M Group	Ocean freight industry	2,092,921	4.84 %
10	E Group	Other computer peripheral manufacturing industry	1,881,089	4.35 %

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

(Continued)

v. Liquidity risk management mechanism

i) Definition and sources of liquidity risk

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

ii) Management procedure of liquidity risk

The Liquidity Risk Framework governs liquidity risk and is managed by Asset and Liability Committee. The Bank maintains a liquid portfolio of marketable securities as a liquidity buffer as required by local regulation. In total, it maintains a liquidity buffer of $164.8 billion, which is equivalent to 27% of the Bank's total assets. The level of the Bank's aggregate liquid reserves is in accordance with local regulatory minimum liquidity requirements.

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

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

iii) Financial assets held for liquidity risk management

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

iv) Maturity analysis of non-derivatives liabilities

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

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

	December 31, 2015				
	Within 3 months	3 months~1 year	1~5 years	Over 5 years	Total
Deposits from the Central Bank and banks	$ 27,133,072	846,664	-	-	27,979,736
Payables	8,480,694	-	-	-	8,480,694
Related parties payable	12,335,869	-	-	-	12,335,869
Deposits and remittances	400,804,287	93,040,948	3,743,766	-	497,589,001
Financial debentures	28,994,352	8,156,080	7,601,824	8,588,807	53,341,063
Other financial liabilities	777,240	62,270	318,982	-	1,158,492
Total	$ 478,525,514	102,105,962	11,664,572	8,588,807	600,884,855

v) Maturity analysis of derivative financial liabilities

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

A. Maturity analysis of net settled derivatives

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

	December 31, 2015					
	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	$ 224,621	722,468	298,167	1,296,413	5,553,252	8,094,921
—Interest rate derivative instruments	11,551	44,382	111,079	122,726	2,348,273	2,638,011
Derivative financial instruments for hedging						
—Interest rate derivative instruments	-	-	123	5,185	27,172	32,480
	$ 236,172	766,850	409,369	1,424,324	7,928,697	10,765,412

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

B. Maturity analysis of gross settled derivatives

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial instruments at fair value through profit or loss						
—Foreign exchange derivative instruments						
—Cash outflow	$ 214,020,053	157,501,738	79,349,474	34,918,379	-	485,789,644
—Cash inflow	210,658,070	154,822,892	78,009,574	34,063,130	-	477,553,666
Derivative financial instruments for hedging						
—Foreign exchange derivative instruments						
—Cash outflow	-	-	1,306,000	-	-	1,306,000
Net cash flow	$ (3,361,983)	(2,678,846)	(2,645,900)	(855,249)	-	(9,541,978)

	December 31, 2015					
	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	$ 192,984,731	106,134,120	85,370,976	46,105,020	4,617,818	435,212,665
—Cash inflow	189,494,830	102,458,073	82,274,159	41,601,802	4,030,866	419,859,730
Net cash flow	$ (3,489,901)	(3,676,047)	(3,096,817)	(4,503,218)	(586,952)	(15,352,935)

vi) Maturity analysis of off-balance-sheet items

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

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

	December 31, 2015				
	0-30 days	31-90 Days	91 days-1 year	Over 1 year	Total
Other guarantees	$ 384,611	678,035	901,972	844,214	2,808,832
Unused amount of irrevocable loan commitments	107,463	214,926	39,318	100,396	462,103
Unused amount of irrevocable letters of credit	207,284	625,799	321,852	-	1,154,935
	$ 699,358	1,518,760	1,263,142	944,610	4,425,870

(Continued)

vii) Structure Analysis of Maturity Date New Taiwan Dollars

December 31, 2016

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

December 31, 2015

	Total	Remaining period to expiration					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days~ Over 1 year	Over 1 year
Capital provided	$ 760,878,904	94,060,720	85,962,030	120,338,101	117,040,707	107,459,839	236,017,507
Capital used	871,521,750	72,063,856	120,059,262	205,451,555	122,411,484	83,999,184	267,536,409
Gap	(110,642,846)	21,996,864	(34,097,232)	(85,113,454)	(5,370,777)	23,460,655	(31,518,902)

viii) Structure Analysis of Maturity Date US Dollars

December 31, 2016

Units: in thousands of US Dollars

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

December 31, 2015

Units: in thousands of US Dollars

	Total	Remaining period to expiration				
		0~30 days	31~90 days	91~180 days	181 days~ Over 1 year	Over 1 year
Capital provided	$ 19,279,348	8,648,362	4,858,551	3,053,766	1,650,954	1,067,715
Capital used	20,239,596	8,749,300	4,645,906	2,700,828	1,738,149	2,405,413
Gap	(960,248)	(100,938)	212,645	352,938	(87,195)	(1,337,698)

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

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

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

December 31, 2016						
	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	$ 18,600,254	-	18,600,254	8,860,642	870,489	8,869,123
Securities purchased under resell agreements	3,196,000	-	3,196,000	-	3,196,000	-
Total	$ 21,796,254	-	21,796,254	8,860,642	4,066,489	8,869,123

December 31, 2016						
	Financial liabilities under net executable settlement contracts or similar agreements					
	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 received	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 14,923,024	-	14,923,024	8,860,642	533,330	5,529,052

December 31, 2015						
	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	$ 18,330,957	-	18,330,957	5,203,720	2,446,420	10,680,817
Securities purchased under resell agreements	2,499,824	-	2,499,824	-	2,499,824	-
Total	$ 20,830,781	-	20,830,781	5,203,720	4,946,244	10,680,817

December 31, 2015						
	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 received	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 17,091,448	-	17,091,448	5,203,720	9,385,543	2,502,185

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

(e) Capital management

i. Summary

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

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

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

ii. Capital management procedure

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

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

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

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

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

b. Capital collected in advance

c. Capital surplus

d. Legal reserves

e. Special reserves

f. Accumulated profit or loss

g. Non-controlling interests

h. Other items in stockholders' equity

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

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

iii. Capital adequacy

Item		Period-end	December 31, 2016	December 31, 2015
Self-owned capital	Common stock capital		37,530,261	38,369,729
	Other Tier 1 capital		-	-
	Tier 2 capital		10,119,637	10,861,100
	Total self-owned capital		47,649,898	49,230,829
Risk-weighted assets	Credit risk	Standard approach (SA)	273,014,017	300,942,295
		Internal ratings-based approach (IRB)	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach (BIA)	25,574,978	28,135,608
		Standardized approach(SA)/alternative approach	-	-
		Advanced measurement approach (AMA)	-	-
	Market risk	Standardized approach (SA)	16,826,701	13,447,757
		Internal model-based approach (IMA)	-	-
	Total risk-weighted assets		315,415,696	342,525,660
Total risk-based capital			15.11 %	14.37 %
Ratio of common stock to total risk-based assets			11.90 %	11.20 %
Ratio of Tier 1 capital to risk-based assets			11.90 %	11.20 %
Leverage ratio			5.41 %	4.77 %

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

(7) Related-Party Transactions

1) Name and relationship of related parties

Name	Relationship
Standard Chartered Bank ("SCB")	The ultimate controlling party
Standard Chartered Bank Taipei Branch ("SCB Taipei")	Affiliate
Standard Chartered Bank New York ("SCB New York")	Affiliate
Standard Chartered Bank Japan ("SCB Japan")	Affiliate
Standard Chartered Bank Singapore ("SCB Singapore")	Affiliate
Standard Chartered Bank Germany ("SCB Germany")	Affiliate
Scope International Private Limited	Affiliate
Scope International (M) Sdn Bhd	Affiliate
Standard Chartered Bank Hong Kong Limited ("SCB Hong Kong")	Affiliate
Standard Chartered Bank China Limited ("SCB China")	Affiliate
Standard Chartered Bank Thailand Limited ("SCB Thailand")	Affiliate
Standard Chartered Bank Korea Limited ("SCB Korea")	Affiliate
Standard Chartered Bank Vietnam Limited ("SCB Vietnam")	Affiliate
Standard Chartered Bank Qatar Limited ("SCB Qatar")	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
Ying Ji Li Asset Management Company Limited ("YJL")	Affiliate
Directors, Supervisors, President and Vice Presidents	The senior management of the Bank

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

2) Significant transactions with related parties

(a) Deposits

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

December 31, 2015			
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 538,341	0.11	0.00~6.10

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, 2016 and 2015, interest expenses on the above deposits were $3,515 thousand and $5,554 thousand, respectively. As of December 31, 2016 and 2015, the interest payables on the above transaction were $161 thousand and $227 thousand, respectively.

(b) Loans

2016

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

2015

Type of loan	Maximum balance during the period	Number of accounts or name of related party	Ending balance	Repayment: On-schedule	Repayment: Overdue	Collateral	Difference between terms and conditions offered to the accounts and to the general public
Employee consumer loans	11,684	12	5,486	5,486	-	Unsecured lending	None
Mortgage	147,257	23	116,585	116,585	-	House	None
Other	5,514	Other individuals	4,947	4,947	-	Overdraft on the comprehensive deposits	None

For the years ended December 31, 2016 and 2015, interest income on the above loans were $2,189 thousand and $2,886 thousand, respectively. As of December 31, 2016 and 2015, the interest receivables on the above transaction were $126 thousand and $121 thousand, respectively.

(c) Foreign exchange and derivative transactions

December 31, 2016

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

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

		December 31, 2015				
		Contracts		Gain (loss) on	Balance sheet	
Name	Contracts	duration period	Notional	valuation	Account	Balance
SCB	Interest rate swap	2016.1.12~ 2022.7.1	$ 8,318,790	35,901	Financial assets at fair value through profit or loss	25,065
					Financial liabilities at fair value through profit or loss	(23,222)
	Spot/forward/swap	2016.1.4~ 2017.4.28	144,818,597	(307,978)	Financial assets at fair value through profit or loss	741,078
					Financial liabilities at fair value through profit or loss	(1,810,666)
	Foreign exchange option	2016.1.1~ 2016.7.27	132,673,720	(2,920,897)	Financial assets at fair value through profit or loss	286,326
					Financial liabilities at fair value through profit or loss	(8,364,397)
	Commodity swap	2016.1.5~ 2017.5.3	636,599	(15,116)	Financial assets at fair value through profit or loss	19,070
					Financial liabilities at fair value through profit or loss	(14,937)
	Cross currency swap	2016.10.11~ 2017.5.3	313,315	55,353	Financial liabilities at fair value through profit or loss	(30,483)
	Commodity option	2016.1.15~ 2016.8.5	4,216,037	115,752	Financial liabilities at fair value through profit or loss	(28,192)
	Interest rate swap (Hedge)	2016.6.15~ 2018.11.29	11,573,240	(28,096)	Derivative financial assets for hedging	28
					Derivative financial liabilities for hedging	(32,480)
SCB Singapore	Spot/forward/swap	2016.1.4~ 2016.12.14	39,488,973	(211,231)	Financial assets at fair value through profit or loss	177,859
					Financial liabilities at fair value through profit or loss	(176,126)
SCB Hong Kong	Spot/forward/swap	2016.1.4~ 2016.1.5	844,900	(1,378)	Financial liabilities at fair value through profit or loss	(1,378)

(d) Deposits with banks—affiliates

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

	2015		
	Balance	Interest rate %	Interest income
SCB Germany	$ 1,555,985	1.50	212
SCB	985,735	1.50	3
SCB Hong Kong	508,738	-	45
SCB Japan	171,190	-	-
SCB New York	97,058	0.18	4,091
SCB Singapore	83,441	-	-
SCB China	22,304	4.00~5.30	70,125
Other	2,596	-	-
	$ 3,427,047		74,476

As of December 31, 2016 and 2015, no the interest receivables resulting from the above deposits with banks to affiliates was recorded. For the years ended December 31, 2016 and 2015, the service charge from the above deposits were \$27,294 thousand and \$22,401 thousand, respectively, recorded under under net service fee income.

(e) Call loans to banks—affiliates

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

	2015		
	Balance	Interest rate %	Interest income
SCB Taipei	$ 40,539,557	-0.20~4.25	519,416
SCB Dubai	11,530,413	0.15~0.38	881
SCB Hong Kong	2,909,135	0.01~0.35	1,658
SCB	-	0.10~0.15	11,712
SCB Japan	-	-0.20~1.00	1,664
Other	-	0.15~0.38	508
	$ 54,979,105		535,839

As of December 31, 2016 and 2015, the interest receivables resulting from the above call loans to banks to affiliates were \$8,389 thousand and \$181,120 thousand, respectively, recorded under receivables—net.

(f) Deposits from banks—affiliates

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

	2015		
	Balance	Interest rate %	Interest expense
SCB Taipei	$ 1,623,277	0.01	183

As of December 31, 2016 and 2015, the interest payables resulting from the above deposits from banks to affiliates were $2 thousand and $5 thousand, respectively, recorded under related parties payable.

(g) Overdrafts on banks—affiliates

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

	2015		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 111,625	13.25	111
SCB New York	-	0.50	275
SCB China	-	-	1,426
Other	-	1.50~5.75	51
	$ 111,625		1,863

As of December 31, 2016 and 2015, no interest payables resulting from the above overdrafts on banks to affiliates was recorded.

(h) Call loans from banks—affiliates

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

	2015		
	Balance	Interest rate %	Interest expense
SCB Hong Kong	$ 3,382,124	0.03~5.40	27,854
SCB	3,294,404	0.47~0.60	478
SCB Singapore	3,294,404	0.16~0.46	1,083
SCB Korea	1,153,041	0.35~1.55	1,061
SCB Macau	1,021,265	0.03~0.59	3,808
SCB China	-	0.05~3.05	9,351
SCB Japan	-	0.33~0.70	30,983
SCB Thailand	-	0.30~0.60	16,877
SCB Taipei	-	0.48~0.51	322
	$ 12,145,238		91,817

As of December 31, 2016 and 2015, the interest payables resulting from the above call loans from banks to affiliates were \$15,835 thousand and \$2,254 thousand, respectively, recorded under related parties payable.

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

	Fair value	
Name	December 31, 2016	December 31, 2015
SCB Hong Kong	$ 6,401,768	6,385,341

For the years ended December 31, 2016 and 2015, the interest income resulting from the above transaction were \$439,602 thousand and \$376,512 thousand, respectively.

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

Name	Bond (note)	December 31, 2016	December 31, 2015
SCB	98-2	$ -	4,941,605
SCB	98-3	-	4,941,605
SCB	103-1	-	13,177,614
SCB Hong Kong	103-1	-	5,929,927
SCB	103-2	6,456,686	6,588,808

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

For the years ended December 31, 2016 and 2015, the interest expenses on the above transactions were $403,805 thousand and $880,352 thousand, respectively. As of December 31, 2016 and 2015, the interest payables on the above transactions were $12,323 thousand and $216,660 thousand, respectively, recorded under related parties payable.

(k) Guarantee

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

	2015			
	Maximum balance during the period	Ending balance	Expense	Collateral
SCB Indonesia	$ 26,335	26,335	USD100 (per case)	None
SCB Hong Kong	19,766	19,766	0.25% (per quarter)	None

(l) For the years ended December 31, 2016, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $1,012,446 thousand, $287,723 thousand, and $195,000 thousand, respectively. For the years ended December 31, 2015, operational and advisory service fees, consulting and technical support service fees and wholesale banking business service fees were $1,005,849 thousand, $530,161 thousand, and $325,669 thousand, respectively. As of December 31, 2016 and 2015, fees payables to SCB were $10,076,197 thousand and $11,932,162 thousand, respectively, recorded under related parties payable. Moreover, for the years ended December 31, 2016 and 2015, the royalty expenses for obtaining the right to use intellectual property of the SC PLC Group the reversed and charged were $570 thousand and $42,421 thousand, respectively. As of December 31, 2015, the royalty expenses payable to SCB was $40,833 thousand, respectively, recorded under related parties payable. For the years ended December 31, 2016, and 2015, the group insurance expenses for entering the group insurance amounted to $33,431 thousand and $34,935 thousand, respectively. As of December 31, 2015, the group insurance expenses payable to SCB was $35,072 thousand, respectively, recorded under related parties payable.

(Continued)

(m) For the years ended December 31, 2016 and 2015, the related cost of the Executive Share Option Scheme amounted to $23,425 thousand and $34,873 thousand, respectively. As of December 31, 2016 and 2015, accounts payable to SCB for the share-based payment scheme costs amounted $20,980 thousand and $23,990 thousand, respectively, recorded under related parties payable, the prepaid fee to SCB for the share-based payment scheme costs amounted to $900 thousand and $918 thousand, respectively, recorded under other assets—net.

(n) For the years ended December 31, 2016 and 2015, expenses resulting from operating and other business related activities with affiliates were as follows:

Name		2016	2015
Technical support service fees:			
SCB	$	10,292	8,455
SCB Hong Kong		6,761	1,112
SCB Singapore		2,935	1,861
other		1,985	93
Total	$	21,973	11,521
Information technology service fees:			
Scope International Private Ltd.	$	97,438	90,953
Scope International (M) Sdn Bhd		101,502	97,077
Total	$	198,940	188,030
Consultant service income, origination income, and trading income:			
SCB	$	333,232	889,740
SCB New York		24,392	-
SCB China		8,943	-
SCB Hong Kong		4,266	8,518
SCB Germany		2,421	-
SCB Mauritius		704	-
Total	$	373,958	898,258
Consultant service fees and origination fees:			
SCB China	$	7,795	-
SCB Philippine		4,266	1,168
SCB France		1,834	-
SCB Vietnam		1,735	4,464
SCB Australia		1,684	-
SCB South Africa		124	2,394
SCB Hong Kong		80	3,827
Other		886	30
Total	$	18,404	11,883

As of December 31, 2016 and 2015, technical support service fees payables and information technology service fees payables were $28,405 thousand and $16,345 thousand, respectively, recorded under related parties payable. As of December 31, 2016 and 2015, consultant service income, origination income, and trading income receivables were $102,673 thousand and $39,464 thousand, respectively, recorded under receivables—net. As of December 31, 2016 and 2015, consultant service fees and origination fees payables were $36,896 thousand and $23,040 thousand, respectively, recorded under related parties payable.

(Continued)

(o) 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, 2016 and 2015, the rentals were $3,189 thousand and $3,686 thousand, respectively. As of December 31, 2016 and 2015, the utility and information system usage income receivables were $99 thousand and $126 thousand, respectively, recorded under receivables—net. For the years ended December 31, 2016 and 2015, the related recharge from expense allocation were $1,158 thousand and $1,309 thousand, respectively.

(p) For the years ended December 31, 2016 and 2015, the administrative support service income from SCB Taipei to the Bank were $3,194 thousand and $2,838 thousand, respectively.

(q) SCLIA entered into the Exclusivity Fee Sharing Agreement with Standard Chartered Bank Singapore. For the years ended December 31, 2016 and 2015, the amount of $613,516 thousand and $657,765 thousand, respectively, recorded under under net service fee income. As of December 31, 2016 and 2015, the service income receivables were $1,592,926 thousand and $979,438 thousand, respectively, recorded under receivables—net. (Please refer to note 9 Significant Contingent Liabilities and Unrecognized Contract Commitments—(3)significant service agreements section for related information.)

3) The salary and remuneration of directors and supervisors

	2016	2015
Salary and other short term benefits	$ 273,539	272,991
Post-employment benefit	1,512	1,260
Total	$ 275,051	274,251

(8) Pledged Assets

Units: in thousands of New Taiwan Dollars

Pledged assets	Pledged for	Amount December 31, 2016	Amount December 31, 2015
Negotiable certificates of deposit, government bonds (recorded under other financial assets)	Provision seizures	$ 6,600	18,000
	USD overdraft clearing deposits	13,835,000	10,000,000
Total		$ 13,841,600	10,018,000

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

Pledged assets	Pledged for	Amount December 31, 2016	Amount December 31, 2015
Negotiable certificates of deposit, government bonds (recorded under other financial assets)	Trust indemnity reserve	$ 150,000	150,000
	Security deposits for agency on foreign bond trading	50,000	50,000
	Security deposits for security underwriting	50,000	50,000
	Security deposits for bill trading business	100,000	100,000
	Security deposits for bond proprietary trading	100,000	-
		450,000	350,000
Guarantee deposits paid (recorded under other assets)	Operating deposits and security deposits for bond proprietary trading	50,300	150,300
Total		$ 500,300	500,300

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

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

3) Trust indemnity reserve is deposits that the Bank placed in the Central Bank of China for its trust custodian business.

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

5) Security deposits for security underwriting are operating deposits placed for operating business of securities commission agency, brokerage, agency, and other relevant businesses approved by the competent authority of the securities underwriting and operating in accordance with the Regulations Governing Securities Firms of the escrow deposit. (Security deposits in accordance with relevant regulations for security underwriting was $40,000 thousand)

6) Security deposits for bill trading business are deposits placed in the Central Bank of the Republic of China for the Bank's bill trading business.

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

(9) Significant Contingent Liabilities and Unrecognized Contract Commitments

1) Commitments and contingent liabilities

	December 31, 2016	December 31, 2015
Consignment collection for others	$ 7,333,235	7,095,837
Securities, consignments and goods in custody	1,847,217,531	1,501,915,468
Trust assets	89,151,397	89,734,022
	$ 1,943,702,163	1,598,745,327
Other guarantees	$ 2,712,222	2,808,832
Unused amount of irrevocable loan commitments	$ 697,346	462,103
Unused amount of irrevocable letters of credit	$ 886,991	1,154,935

2) Operating leases

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

	December 31, 2016	December 31, 2015
Not later than one year	$ 444,289	342,391
Later than one year and less than five years	1,223,322	610,709
Total	$ 1,667,611	953,100

3) Significant service agreements

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

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

Trust balance sheet
December 31, 2016

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Trust balance sheet
December 31, 2015

Trust assets		Trust liabilities	
Bank deposits	$ 13,758	Accounts payable	$ 8
Short-term investments	85,542,434	Tax payable	1
Structured notes	3,314,809	Payables for securities under custody	863,017
Securities under custody	863,017	Trust capital and accumulated earnings	88,870,996
Other assets	4		
Total trust assets	$ 89,734,022	Total trust liabilities	$ 89,734,022

Trust income statements

	2016	2015
Trust revenue:		
Interest revenue	$ 3,527,834	3,600,644
Common stock cash dividends	375	398
Realized gain on investments	1,184,335	1,934,812
Unrealized gain on investments	10,380,239	1,713,851
Net gain on trading of assets	-	21
	15,092,783	7,249,726
Trust expenses:		
Management expense	83	105
Service charges	1	1
Realized loss on investments	3,769,501	3,567,390
Unrealized loss on investments	17,120,913	7,781,728
Loss on trading of assets	11	-
	20,890,509	11,349,224
Net loss before income tax	(5,797,726)	(4,099,498)
Income tax expense	-	4
Net loss after income tax	$ (5,797,726)	(4,099,502)

Schedules of investment for trust business

Investment items	December 31, 2016	December 31, 2015
Bank deposits	$ 6,478	13,758
Short-term investments:		
Bonds	19,550,567	14,104,486
Common stock	3,113,795	2,930,746
Funds	62,438,592	68,507,202
Structured notes	3,351,690	3,314,809
Securities under custody	690,274	863,017
Other assets	1	4
	$ 89,151,397	89,734,022

Foreign currency trust business engaged by the Offshore Banking Unit (OBU) as of December 31, 2016 and 2015, were included in the trust balance sheets and schedules of investment for trust business.

(Continued)

(10) Significant Disaster Loss: None.

(11) Significant Subsequent Events: None.

(12) Others

1) Profitability

Unit: %

Items		December 31, 2016	December 31, 2015
Return on assets	Before income tax	0.12	0.24
	After income tax	0.03	0.20
Return on equity	Before income tax	1.83	3.99
	After income tax	0.39	3.27
Net profit ratio		1.37	10.49

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

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

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

(13) Other Disclosures Items

For the years ended December 31, 2016, relevant information of any major transactions that the Bank was required to disclose are as follow:

1) Related information on significant transaction

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

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

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

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

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

(f) Information regarding selling non performing loans：

i. Summary table of NPL disposal: None.

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

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

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

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

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

Name of investee	Investee's location	Investee's operation	Percentage of ownership	Book value of investments	Gain (loss) recognized during the period	Holdings: Number of shares	Holdings: Pro forma number of shares	Holdings: Total: Shares (thousand)	Holdings: Total: Percentage	Remark
Taiwan Small and Medium Enterprises Development Corp.	8F., No.181, Fushing N. Rd., Songshan District, Taipei City 10596, Taiwan	Small and medium enterprises improvement services	4.84 %	29,000	-	3,417	-	3,417	4.84 %	Note 1
Financial Information Service Co., Ltd.	No.81, Sec. 3, Kangning Rd., Neihu District, Taipei City 11485, Taiwan	Information technology services	1.14 %	45,500	-	5,938	-	5,938	1.14 %	Note 1
TSC Bio Venture Management, Inc.	5F., No.50, Sec. 1, Sinsheng S. Rd., Jhongjheng Dist., Taipei City 100, Taiwan (R.O.C.)	Venture capital services	5.00 %	8,505	-	851	-	851	5.00 %	Note 1 and 2
Liyu Venture Investment, Inc.	8F., No.70, Sec. 3, Nanjing E. Rd., Jhongshan District, Taipei City 10489, Taiwan	Venture capital services	4.76 %	7,949	-	607	-	607	4.76 %	Note 1 and 3
Windance Co., Ltd.	No.243-1, Jhongyang Rd., North District, Hsinchu City 30041, Taiwan	Residential and commercial lease/sale services	2.73 %	188,500	-	18,850	-	18,850	2.73 %	Note 1
Taiwan Asset Service Corporation	10F., No.300, Sec. 4, Jhongsiao E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	Asset auction notarization	2.94 %	50,000	-	5,000	-	5,000	2.94 %	Note 1
Yang Guang Asset Management Company	11F., No.85 and No.87, Sec. 2, Nanjing E. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	NPL acquisition services	1.42 %	849	-	85	-	85	1.42 %	Note 1

(Continued)

Note 1: Liyu Venture Investment, Inc. and TSC Bio Venture Management, Inc. completed the process of capital reduction and cash refund in 2016.

Note 2: TSC Bio Venture Management, Inc. completed the process of capital reduction on October 28, 2016.

Note 3: Liyu Venture Investment, Inc. completed the process of capital reduction on August 15, 2016.

3) Setting up branches and investing in Mainland China:

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

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

(14) Operating Segment Financial Information

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

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

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

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

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

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

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

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

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

	2015				
	Retail Clients	Corporate and Institutional Clients	Commercial Clients	Other Banking	Total
Interest income	$ 7,083,907	4,500,308	274,251	377,886	12,236,352
Interest expense	(521,872)	(4,080,255)	95,003	(597,453)	(5,104,577)
Net interest income	6,562,035	420,053	369,254	(219,567)	7,131,775
Net service fee income	3,312,849	598,206	108,626	(801)	4,018,880
Other miscellaneous income	389,193	1,869,881	272,656	38,955	2,570,685
Net income	10,264,077	2,888,140	750,536	(181,413)	13,721,340
Bad debt expense and (provision for) reversal guarantee liabilities	(709,249)	51,215	(428,132)	615	(1,085,551)
Operating expense	(8,208,626)	(1,636,826)	(928,723)	(104,694)	(10,878,869)
Segment profit or loss	$ 1,346,202	1,302,529	(606,319)	(285,492)	1,756,920
Segment assets	$ 220,533,711	423,370,824	13,208,028	10,112,599	667,225,162
Segment liabilities	$ 302,545,004	204,791,455	84,760,383	31,848,561	623,945,403

Note: Departmental information for 2016 is based on the disclosure of the organization after the rearrangements in 2016.