

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Standard Chartered Bank (Taiwan) Limited:

We have audited the accompanying balance sheets of Standard Chartered Bank (Taiwan) Limited as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Standard Chartered Bank (Taiwan) Limited as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and Republic of China generally accepted accounting principles.

Standard Chartered Bank (Taiwan) Limited has prepared its consolidated financial statements for the Bank and its subsidiaries as of and for the years ended December 31, 2009 and 2008, on which we have expressed an unqualified audit opinion.

KPMG
March 4, 2010

The accompanying financial statements are intended only to present the financial position, results of operations and 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, 2009 and 2008
(Expressed in thousands of New Taiwan dollars, except for par value)

	2009	2008	Change %		2009	2008	Change %
Assets				Liabilities and Stockholders' Equity			
Cash and cash equivalents (notes 4(1) and 5)	\$ 5,808,959	15,670,941	(63)	Deposits by Central Bank and other banks (note 5)	\$ 49,355,596	21,038,002	135
Balance at Central Bank and loans and advances to banks (notes 4(2) and 5)	113,755,340	98,808,646	15	Financial liabilities at fair value through profit or loss (notes 4(3) and (21) and 5)	19,961,310	30,594,969	(35)
Financial assets at fair value through profit or loss (notes 4(3) and (21) and 5)	28,514,878	39,295,509	(27)	Bills and bonds sold under repurchase agreements (notes 4(12) and 7)	-	412,853	(100)
Bills and bonds purchased under reverse repurchase agreements (note 4(12))	-	1,179,467	(100)	Notes and accounts payable (notes 4(18), 5 and 7)	6,408,514	12,799,007	(50)
Accounts receivable, net (notes 4(4) and (6) and 5)	27,262,328	27,530,677	(1)	Accounts payable—related parties (note 5)	2,577,875	1,919,127	34
Assets held for sale (note 4(5))	-	1,794,670	(100)	Deposits and remittances (notes 4(13) and 5)	470,195,395	514,039,270	(9)
Loans and advances to customers, net (notes 4(6) and (21), 5 and 11)	313,086,588	310,526,139	1	Financial debentures (notes 4(14) and 5)	29,500,120	19,725,868	50
Available-for-sale financial assets (notes 4(7) and (21), 5 and 6)	108,235,427	121,529,284	(11)	Other financial liabilities (note 4(21))	331,065	624,367	(47)
Investment in associates under equity method, net (note 4(8))	368,502	273,667	35	Other liabilities (notes 4(17), 5 and 7)	<u>3,103,634</u>	<u>3,732,748</u>	(17)
Other financial assets, net (notes 4(8) and (21) and 11)	340,118	403,869	(16)	Total liabilities	<u>581,433,509</u>	<u>604,886,211</u>	(4)
Property and equipment, net (note 4(9))	7,589,391	7,974,132	(5)	Stockholders' Equity (notes 4(7), (17) and (20)):			
Intangible assets (notes 4(10) and 10(5))	3,516,119	3,784,134	(7)	Common stock, par value \$10, authorized 3,000,000 thousand shares and 2,500,000 thousand shares and issued 2,910,572 thousand shares and 2,485,572 thousand shares as of December 31, 2009 and 2008, respectively	<u>29,105,720</u>	<u>24,855,720</u>	17
Other assets (notes 4(11) and (19) and 6)	7,964,904	7,714,076	3	Capital surplus	<u>10,430,441</u>	<u>6,183,410</u>	69
				Retained earnings:			
				Legal reserve	5,374	-	-
				Accumulated (deficits) earnings	<u>(4,649,784)</u>	<u>17,915</u>	(26,055)
					<u>(4,644,410)</u>	<u>17,915</u>	(26,025)
				Other adjustments to stockholders' equity:			
				Unrealized revaluation increments on property and equipment	381,303	381,303	-
				Unrealized gain on available-for-sale financial assets	28,128	352,768	(92)
				Unrealized gain on cash flow hedge	3,253	-	-
				Net loss on unrecognized pension cost	<u>(295,390)</u>	<u>(192,116)</u>	(54)
					<u>117,294</u>	<u>541,955</u>	(78)
				Total stockholders' equity	35,009,045	31,599,000	11
				Commitments and contingent liabilities (notes 4(11), (12), and (21), 6 and 7)			
Total Assets	<u>\$ 616,442,554</u>	<u>636,485,211</u>	(3)	Total Liabilities and Stockholders' Equity	<u>\$ 616,442,554</u>	<u>636,485,211</u>	(3)

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Income

For the years ended December 31, 2009 and 2008

(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2009	2008	Change %
Interest income (notes 4(3) and (15) and 5)	\$ 13,332,390	17,769,177	(25)
Less: Interest expenses (note 5)	<u>4,793,264</u>	<u>7,455,583</u>	(36)
Net interest income	8,539,126	10,313,594	(17)
Other operating income:			
Fees and commission income, net (note 7(1))	3,388,655	4,239,656	(20)
Gain on financial instruments at fair value through profit or loss (notes 4(3) and 5)	1,448,951	591,441	145
Realized gain (loss) on available-for-sale financial assets (note 4(7))	233,778	(61,647)	479
Investment income from interest in associates under equity method (note 4(8))	297,240	202,282	47
Foreign exchange gain, net	772,839	919,894	(16)
Recovery from written-off loans (note 4(6))	2,274,048	1,814,557	25
Impairment loss on assets	(45,203)	(14,469)	(212)
Other non-interest income, net (notes 4(8), (11), and (16) and 11)	<u>453,261</u>	<u>404,901</u>	12
Operating income	<u>17,362,695</u>	<u>18,410,209</u>	(6)
Bad debt expenses (notes 4(4) and (6)):			-
Provision for accounts receivable, loans and advances to customers, and guarantee (note 4(6))	4,447,563	7,711,246	(42)
Provision for compensation receivable (notes 4(4) and (6))	<u>5,454,655</u>	-	-
	<u>9,902,218</u>	<u>7,711,246</u>	28
Operating expenses:			
Staff costs (notes 4(17) and (18), 5 and 10(1))	6,092,847	6,055,327	1
Depreciation and amortization expenses (note 10(1))	646,288	770,850	(16)
General and administrative expenses (notes 5 and 7)	<u>5,595,930</u>	<u>4,824,930</u>	16
	<u>12,335,065</u>	<u>11,651,107</u>	6
Loss from continuing operations before income tax	(4,874,588)	(952,144)	(412)
Income tax benefit (note 4(19))	<u>(212,263)</u>	<u>(970,059)</u>	78
Net (loss) income	<u>\$ (4,662,325)</u>	<u>17,915</u>	(26,125)
	Before tax	After tax	Before tax
	After tax	Before tax	After tax
Basic (deficits) earnings per share (note 4(20))	<u>\$ (1.94)</u>	<u>(1.86)</u>	<u>(0.44)</u>
	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2009 and 2008
(expressed in thousands of New Taiwan dollars)

	Retained earnings					Other adjustments				Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated earnings (deficits)	Unrealized revaluation increments on property and equipment	Unrealized (loss) gain on available-for-sale financial assets	Unrealized gain on cash flow hedge	Net loss on unrecognized pension cost	
Balance as of January 1, 2008	\$ 21,575,720	5,049,515	-	332	(2,145,681)	381,303	(888,436)	-	(159,003)	23,813,750
Capital surplus and special reserve for offsetting against accumulated deficits (note 4(20))	-	(2,145,349)	-	(332)	2,145,681	-	-	-	-	-
Capital injection in cash (note 4(20))	3,280,000	3,279,244	-	-	-	-	-	-	-	6,559,244
Net income for the year ended December 31, 2008	-	-	-	-	17,915	-	-	-	-	17,915
The movement of unrealized gain on available-for-sale financial assets (note 4(7))	-	-	-	-	-	-	1,241,204	-	-	1,241,204
Net loss on unrecognized pension cost	-	-	-	-	-	-	-	-	(33,113)	(33,113)
Balance as of December 31, 2008	24,855,720	6,183,410	-	-	17,915	381,303	352,768	-	(192,116)	31,599,000
Capital injection in cash (note 4(20))	4,250,000	4,247,031	-	-	-	-	-	-	-	8,497,031
Legal reserve (note 4(20))	-	-	5,374	-	(5,374)	-	-	-	-	-
Net loss for the year ended December 31, 2009	-	-	-	-	(4,662,325)	-	-	-	-	(4,662,325)
The movement of unrealized loss on available-for-sale financial assets (note 4(7))	-	-	-	-	-	-	(324,640)	-	-	(324,640)
Unrealized gain on cash flow hedge (notes 4(6) and (21))	-	-	-	-	-	-	-	3,253	-	3,253
Net loss on unrecognized pension cost	-	-	-	-	-	-	-	-	(103,274)	(103,274)
Balance as of December 31, 2009	<u>\$ 29,105,720</u>	<u>10,430,441</u>	<u>5,374</u>	<u>-</u>	<u>(4,649,784)</u>	<u>381,303</u>	<u>28,128</u>	<u>3,253</u>	<u>(295,390)</u>	<u>35,009,045</u>

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Cash Flows

For the years ended December 31, 2009 and 2008
(expressed in thousands of New Taiwan dollars)

	2009	2008
Cash flows from operating activities:		
Net (loss) income	\$ (4,662,325)	17,915
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bad debt expenses—accounts receivable, loans and advances to customers, and guarantee	4,447,563	7,711,246
Bad debt expenses—provision for compensation receivable	5,454,655	-
Reserves	28,866	44,668
Depreciation expenses	551,958	680,810
Amortization expenses	94,330	90,040
Realized (gain) loss on available-for-sale financial assets	(233,778)	61,647
Investment income from interest in associates under equity method	(297,240)	(202,282)
Gain on disposal of investment	-	(111,580)
Decrease in unrealized gain on inter-affiliate transactions	(98)	(105)
Realized deferred revenue	(123,122)	(123,852)
Gain on disposal of non-performing loans	(361,307)	-
Loss on disposal of assets	288,986	30,701
Net impairment losses	45,203	14,469
Deferred income tax benefit	(361,838)	(1,254,111)
(Increase) decrease in operating assets:		
Increase in balance at Central Bank and loans and advances to banks	(14,946,694)	(58,338,531)
Decrease (increase) in financial assets at fair value through profit or loss	10,783,884	(13,027,685)
Decrease (increase) in accounts receivable	6,409,762	(3,782,083)
Increase in compensation receivable	(6,141,413)	-
Increase in loans and advances to customers	(14,617,668)	(21,387,971)
Decrease (increase) in other financial assets	63,751	(76,921)
Decrease (increase) in other assets	1,065,427	(1,244,880)
Increase (decrease) operating liabilities:		
Increase (decrease) in deposits by Central Bank and other banks	28,317,594	(5,845,402)
(Decrease) increase in financial liabilities at fair value through profit or loss	(10,732,147)	9,442,949
(Decrease) increase in deposits and remittances	(43,843,875)	116,190,530
(Decrease) increase in accounts payable	(6,403,291)	1,829,720
Increase in accounts payable—related parties	658,748	1,881,475
(Decrease) increase in other financial liabilities	(293,302)	577,990
(Decrease) increase in other liabilities	(487,821)	246,672
Net cash (used in) provided by operating activities	<u>(45,295,192)</u>	<u>33,425,429</u>
Cash flows from investing activities:		
Decrease (increase) in bills and bonds purchased under reverse repurchase agreements	1,179,467	(1,179,467)
Proceeds from disposal of non-performing loans	2,431,202	-
Proceeds from disposal of assets held for sale	189,284	26,945
Acquisition of available-for-sale financial assets	(468,223,217)	(181,374,089)
Proceeds from disposal of available-for-sale financial assets	481,518,941	142,357,637
Cash dividends from interest in associates under equity method	202,405	122,740
Return of investment in associates under equity method	-	338,283
Return of investments in financial assets carried at cost as a result of capital reduction	-	2,857
Proceeds from disposal of financial assets carried at cost	-	44,740
Acquisition of property and equipment, and intangible assets	(299,816)	(1,143,497)
Proceeds from disposal of property and equipment, intangible assets, and other assets	253,735	510,986
Net cash provided by business acquisition (notes 10(4) and (5))	224,291	4,516,522
Net cash provided by (used in) investing activities	<u>17,476,292</u>	<u>(35,776,343)</u>
Cash flows from financing activities:		
Decrease in bills and bonds sold under repurchase agreements	(412,853)	(733,139)
Issuance of financial debentures	19,699,039	4,913,968
Repayment of financial debentures	(9,826,299)	-
Capital injection in cash	8,497,031	6,559,244
Net cash provided by financing activities	<u>17,956,918</u>	<u>10,740,073</u>
Net (decrease) increase in cash and cash equivalents	(9,861,982)	8,389,159
Cash and cash equivalents at beginning of period	<u>15,670,941</u>	<u>7,281,782</u>
Cash and cash equivalents at end of period	<u>\$ 5,808,959</u>	<u>15,670,941</u>
Supplemental disclosure of cash flow information:		
Cash payments of interest	\$ <u>6,027,208</u>	<u>10,515,035</u>
Cash payments of income tax	\$ <u>252,384</u>	<u>284,052</u>
Adjustments to reconcile cash from investing and financing activities:		
Unrealized (loss) gain on available-for-sale financial assets	\$ <u>(324,640)</u>	<u>1,241,204</u>
Deficit offset by capital surplus	\$ <u>-</u>	<u>2,145,349</u>

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

December 31, 2009 and 2008

(expressed in thousands of New Taiwan dollars, unless otherwise specified)

(1) Organization

Standard Chartered Bank (Taiwan) Limited (the Bank) was established on September 15, 1948, in the Taoyuan, Hsinchu, and Miaoli areas. The original name of the Bank was Hsinchu District's Mutual Loan Inc., which specialized in the mutual loan business, deposits, loans, and payment collection. In compliance with the Banking Act of the Republic of China (R.O.C.), 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 business.

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 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 and an International Business Department in March 1993. In 1989 and 1992, the Bank established the securities trading business and the securities broker business, respectively, and both were approved by the MOF. 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.

On September 29, 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 common shares during the period between September 29 and December 31, 2006. After completion of the acquisition of shares, in accordance with the "Taiwan Stock Exchange Corporation Procedures for Stock Exchange Delisting Application by Listed Companies", Hsinchu International Bank Co., Ltd. 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.

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. Related information is referred to the notes 10(3), (4) and (5).

As of December 31, 2009 and 2008, the number of the Bank's employees was 3,895 and 4,680, respectively.

(2) Summary of Significant Accounting Policies

The financial statements are presented in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese version financial statements from which it is derived. If there is any conflict between, or any difference in the interpretation of, the English and Chinese financial statements, the Chinese version shall prevail.

(Continued)

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

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and R.O.C. generally accepted accounting principles. The financial statements are prepared primarily on a historical cost basis except as otherwise specified in the following accounting policies.

The preparation of financial statements in conformity with related regulations requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Actual results could differ from these estimates.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1) Basis of preparation of financial statements

The financial statements include the accounts of the head office, branches, and OBU of the Bank. All intra-office balances and transactions as well as entrusted assets, entrusted liabilities, and their corresponding interests managed by the Bank have been eliminated for preparation of the financial statements.

The Bank, for internal management purposes, should maintain separate accounts and prepare separate sets of financial statements for the entrusted assets, entrusted liabilities, and their corresponding interests managed by the Bank. All the entrusted assets and their corresponding interests are booked to a memo account.

2) 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 denominated in original foreign currencies are translated into New Taiwan dollars at daily closing exchange rates. At the balance sheet date, the financial statement amounts in all foreign currencies are translated into New Taiwan dollars at exchange rates assigned on that date. Differences from translation are recorded as gain or loss for the current period.

3) Cash and cash equivalents

Cash on hand, notes and checks for clearance, and due from banks are considered cash and cash equivalents by the Bank.

4) Reserves for deposits

Reserves against deposits placed with the Central Bank of the Republic of China (CBC) are calculated based on the monthly average balance of the various deposit accounts, using specific reserve ratios promulgated by the CBC. There is no interest offered on the reserve against deposits—checking and foreign currency accounts, and the deposits can be withdrawn at any time. Except for the monthly reserve adjustment, deposits and withdrawals from the reserve against deposits—demand account are restricted. The reserve against deposits—settlement account is placed with the CBC for interbank settlement.

5) Financial assets and liabilities at fair value through profit or loss

The Bank accounts for financial assets and liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 34 "Financial Instruments: Recognition and Measurement".

(Continued)

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

Financial assets and liabilities at fair value through profit or loss include debt, equity, and derivative instruments held or issued by the Bank. These financial assets and liabilities can be divided into two categories: 1) financial assets and liabilities held for trading and 2) financial assets and liabilities designated as at fair value through profit or loss at inception. A financial asset or liability is classified as held for trading if acquired or issued principally for the purpose of selling or repurchasing in the short term.

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recognized on the trade date. When a financial asset or financial liability is recognized initially, the Bank shall measure it at its fair value plus transaction costs directly attributable to the acquisition or issuance of the financial asset or liability.

Financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. The fair value of an asset is the amount at which the asset could be purchased or sold in a current arm's-length transaction between knowledgeable, willing parties. The best evidence of fair value is quoted prices in an active market. The fair value of listed or over-the-counter (OTC) stocks is the market closing price on the balance sheet date. The market price of open-end funds is the net asset value on the balance sheet date. The fair value of domestic bonds is represented by the quoted OTC price calculated by using yield to maturity and face value. If a quoted market price is not available, fair value should be estimated by using the best information available in the circumstances or a valuation technique. Estimation of fair value is usually based on recent trading prices of such financial instruments with similar asset class and credit quality, supplemented by related valuation techniques.

The realized and unrealized gain or loss arising from changes in fair value of financial assets and liabilities, including the amortization of premium or discount, is recognized in current net profit or loss. Interest income (expenses) and cash dividends received during the holding period are recorded under the account "interest income (expenses)" and "gain (loss) on financial instruments at fair value through profit or loss", respectively. Cash dividends, including dividends declared in the year of investment, are recognized as income on the ex-dividend date or the date that the board declares the cash dividends. Stock dividends are not recognized as income but treated as increases in the number of shares held.

In accordance with the accounting standard before the second amendment of SFAS No. 34, an entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

In accordance with the second amendment of SFAS No. 34 effective on October 17, 2008, financial assets classified as assets at fair value through profit or loss (other than derivative financial assets and those designated as assets at fair value through profit or loss by the entity upon initial recognition) upon initial recognition may be reclassified into other categories of financial assets; financial assets are classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to the loans and receivables category. The accounting treatments on the date of reclassification are summarized as follows:

- a) Financial assets classified as assets at fair value through profit or loss upon initial recognition that would have met the definition of loans and receivables shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the Bank has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Any previous gain or loss already recognized in profit or loss shall not be reversed.

(Continued)

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

- b) Financial assets classified as assets at fair value through profit or loss upon initial recognition 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.
- c) Financial assets classified as available-for-sale upon initial recognition that would have met the definition of loans and receivables shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

For any previous gain or loss on a financial asset that has been recognized directly in equity, if the financial asset has a fixed maturity date, the gain or loss should be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains in equity.

6) Available-for-sale financial assets

The Bank has adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement" to account for available-for-sale financial assets.

Available-for-sale financial assets include financial assets that are categorized as available-for-sale at inception and non-derivative financial assets that are not classified as held-to-maturity financial assets, financial assets at fair value through profit or loss, loans, or accounts receivable.

The Bank recognizes the purchase or sale of available-for-sale financial assets using trade date accounting. These financial instruments are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issuance of the financial asset.

Available-for-sale financial assets are subsequently carried at fair value. The best evidence of fair value is quoted prices in an active market. If a quoted market price is not available, fair value should be estimated using the best information available in the circumstances or a valuation technique. Interest income and cash dividends are recorded under "interest income" and "realized gain on available-for-sale financial assets", respectively. Cash dividends are recognized as revenue on the ex-dividend date or the date that the board declares the cash dividends. Stock dividends are not recognized as income but treated as increase in the number of shares held. The difference between the fair value and the unamortized cost is the unrealized gain or loss, which is accounted for as an adjustment to stockholders' equity. When available-for-sale financial assets are sold or derecognized, cumulative gain or loss previously recognized in stockholders' equity is recognized in the income statement.

When there is any indication of impairment in the value of available-for-sale financial assets, an impairment loss should be recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss should be reversed as realized current income. Impairment loss recognized on equity instruments is reversed and recognized as an adjustment to stockholders' equity. The carrying value after the reversal should not exceed the unamortized amount of the assets assuming no impairment loss was recognized in prior periods.

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

7) Derecognition of financial assets and liabilities

All or partial financial assets are derecognized when the contractual rights to receive cash flows from the financial assets have terminated. If substantially all or partial of the risks and rewards of the financial asset have been transferred and the Bank does not retain control of the financial asset, consideration received from transferring the assets should be viewed as a selling price. If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for derecognition, the Bank shall treat this transfer as a borrowing with collateral.

A financial liability (or a part of financial liability) is derecognized from the balance sheet when the obligation specified in the contract is discharged, cancelled, or expired.

8) Derivative financial instruments and hedge accounting

Derivative financial instruments are held for trading purposes except those qualifying for hedge accounting. Derivative financial instruments held for trading purposes are for market creation, customer services, proprietary trading, and relevant arbitrage activities.

Derivative financial instruments held for trading purposes are carried at fair value upon initial recognition and in subsequent periods. Changes in fair value are recorded as current profit or loss. The fair value of an asset is the amount at which the asset could be purchased or sold in a current arm's-length transaction between knowledgeable, willing parties. The best evidence of fair value is quoted prices in an active market. If a quoted market price is not available, fair value should be estimated by using the best information available in the circumstances or a valuation technique. Estimation of fair value is usually based on recent trading prices of such financial instruments with similar asset class and credit quality, supplemented by related valuation techniques.

An embedded derivative that is attached to a financial instrument but contractually transferable independently from the attached instrument while all of the criteria per SFAS No. 34, for bifurcation are met should be separated from the host contract and accounted for as a derivative. If an embedded derivative is separated, the host contract shall be accounted for in accordance with SFAS No. 34 based on the type of financial instrument.

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognized in profit or loss. The gain or loss from changes in the fair value of the hedged items attributable to the hedged risk is recognized in profit or loss. They are both recorded as other non-interest income, net.

Derivatives with positive fair value are accounted for as assets, while derivatives with negative fair value are accounted for as liabilities. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

The hedging instrument designated as a cash flow hedge is recognized directly in other adjustments to stockholders' equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in other adjustments to stockholders' equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges other than those covered by the preceding statement, the associated cumulative gain or loss is released from other adjustment to stockholders' equity and recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

9) Repurchase and reverse repurchase agreements

Financial instruments sold (purchased) under repurchase or reverse repurchase agreements are stated at acquisition cost. The difference between the contracted sale or repurchase price and acquisition cost is recognized as interest income or interest expense during the holding periods.

10) Assets held for sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are classified as "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 their sale within one year must be highly probable. Non-current assets or disposal groups classified as "held for sale" are measured at the lower of their book value or fair value less costs to sell. Non-current assets or disposal groups classified as held for sale are not depreciated, amortized or depleted. Total assets and total liabilities are each shown separately and excluded from the individual line items of the balance sheet. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

An impairment loss is recognized for any initial or subsequent write-down of the assets (or disposal group) to fair value less costs to sell in the income statement. A gain from any subsequent increase in fair value less costs to sell of an asset (or a disposal group) shall be recognized, but not in excess of the cumulative impairment loss that has been recognized in accordance with SFAS No. 38 "Non-current Assets Held for Sale" and the reversal amount accounted for under SFAS No. 35 "Impairment of Assets".

11) Loans and allowance for doubtful accounts

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

The term of credit is decided by the length of credit maturity. Credit maturing in not more than one year is called short-term credit; credit maturing in more than one year but not more than seven years is called medium-term credit; and credit maturing in more than seven years is called long-term credit. Loans with collateral, pledged assets, and qualified guarantees 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 Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, 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, that have one of the following characteristics shall be written off:

(Continued)

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

- a) 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.
- b) 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.
- c) 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.
- d) 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.

The unrecovered amount of non-performing loans and non-accrual loans (with pay-off period between six months to two years) shall be deducted from the balance of those loans and transferred to bad debt expense after collection efforts have been performed. 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 are recorded under other non-interest income, net.

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 nonperforming loan. Accrued interest on a nonperforming loan will only be calculated and booked into memo accounts.

In accordance with Article XI of the Value-Added and Non-Value-Added Tax Law, the Bank has to provide the amount equal to 3% of operating revenue as allowance for doubtful accounts for writing off overdue loans until the overdue loan ratio is lower than 1% since July 1, 1999. When the aforementioned allowance is provided, "allowance for doubtful accounts" and "bad debt expenses" are used.

12) Investment in associates under equity method

Investment in associates is accounted for using the equity method when the Bank holds, directly through the Bank or indirectly through its subsidiaries, 20 percent or more of the voting power of the investee or when the Bank holds less than 20 percent of the voting power but has significant influence over the investee.

Unrealized profits and losses resulting from transactions between the Bank, including its subsidiaries, and an investee shall be eliminated. When the unrealized profits or losses arise from downstream transactions, unrealized gain or loss from transactions and deferred credits for inter-company transactions are adjusted to eliminate the inter-company transaction effects; otherwise, long-term investments under the equity method and related investment gain or loss accounts are adjusted. If the transaction profits or losses arise from depreciated, depleted, or amortized fixed assets, the recognition of such profits and losses shall be spread over the useful lives of such assets; otherwise, the recognition shall be in the year when profits or losses are realized.

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

If an investee issues new shares and the Bank does not purchase the new shares proportionately, then the investment percentage and the net worth of the investee shall be adjusted. The aforementioned difference shall be recorded by adjusting the capital surplus and the investment in associates under the equity method. If the adjustment stated above is to debit the capital surplus account and the balance of the capital surplus from long-term investments under the equity method is not enough to be offset, then the difference shall be debited to retained earnings.

The Bank obtains control over an investee when it directly or indirectly owns more than one half of the voting power of the investee. The aforementioned investees are accounted for using the equity method. Consolidated financial statements including the aforementioned investees are prepared at the end of each June and December.

13) Other financial assets – financial assets carried at cost

Financial assets carried at cost are equity investment in non-listed companies without significant influence or control. Such financial assets are recorded at cost because the fair values cannot be reliably measured. If there is objective evidence of impairment, the impairment loss should be recognized. Such impairment losses are not allowed to be reversed.

Cash dividends received from the aforementioned financial assets are recorded under "other non-interest income, net" 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 prior to the acquisition of the investment. Stock dividends are not recognized as income but treated as increases in the number of shares held. If a reliable measure becomes available for the aforementioned financial assets for which such a measure was previously not available, the financial assets should be measured at fair value and reclassified as available for sale.

14) Property and equipment, and related depreciation

Property and equipment are measured at cost of acquisition. Interest expense incurred directly attributable to bringing an asset to the condition necessary for it to be capable of operating should be capitalized; however, major additions, improvements, and renewals are treated as capital expense, while maintenance and repair costs are expensed when incurred.

The Bank capitalizes the retirement or recovery obligation for newly acquired property and equipment in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation. A component which is significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is appropriate should be depreciated separately. The Bank evaluates the estimated useful lives, depreciation method and residual value at the end of each year. Changes in the estimated useful lives, depreciation method and residual value are accounted for as changes in accounting estimates and recognized in current profit or loss.

Except for land, depreciation of property and equipment is calculated using the straight-line method over its estimated useful life. If the estimated useful life has been reached for property and equipment and such assets are still in use, a new useful life is estimated based on the residual value of the asset, and the asset is depreciated thereafter. Gains or losses on the disposal of property and equipment are recorded as other non-interest income or losses.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Except for land, useful lives of property and equipment held by the Bank are as follows:

Buildings	5 to 60 years
Office equipment	3 to 8 years
Transportation equipment	3 years
Leasehold improvement	3 to 8 years
Other equipment	3 to 10 years

15) Intangible assets – goodwill

Goodwill represents the excess of the cost of the acquisition over the Bank's interest in the net fair value of the identifiable assets and liabilities of the acquired entity. Goodwill is measured at cost less accumulated impairment losses.

16) Other assets – idle assets

When property and equipment are not used for operations or any other purposes, the Bank should transfer the initial cost, the associated accumulated depreciation, and accumulated impairment of the assets to other assets – idle assets. Idle assets is measured at the lower of the net realizable value or recoverable amount.

17) Other assets – assets leased to others

Property held for lease is carried at cost, and depreciated over its estimated useful life using the straight-line method.

18) Other assets – foreclosed assets

Foreclosed assets are carried at the lower of the carrying amount or net realizable value. Foreclosed assets are depreciated on a straight-line basis after being foreclosed for one year.

19) Asset impairment

The Bank has adopted SFAS No. 35 "Impairment of Assets". In accordance with SFAS No. 35, the Bank assesses at each balance sheet date whether there is any indication that an asset may have been impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset, and recognizes impairment loss for an asset with carrying value higher than the recoverable amount.

The Bank may reverse an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Bank assesses the goodwill and intangible assets that have indefinite lives or that are not yet available for use on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

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

20) 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.

21) Provisions for liabilities and charges

In accordance with the Rules Governing Securities Firms (RGSF), if the profit for trading securities for the Bank's own account exceeds the amount of loss, 10% of the portion in excess on a monthly basis is allocated as a trading loss reserve. The trading loss reserve cannot be used except for the purpose of covering the amount of trading loss in excess of the amount of trading profit. When the accumulated amount of the trading loss reserve reaches NT\$200,000, allocation may cease.

The aforementioned provision for (reversal of) trading loss reserve is recorded as "other liabilities – trading loss reserve" and "other non-interest income (loss), net – trading loss reserve".

According to the RGSF, 0.0028% of the transaction price of the traded securities (for customers' accounts) must be provided on a monthly basis as reserve for breach of contract losses default reserve. The default reserve for breach of contract losses cannot be used except for the purpose of covering the losses caused by breach of contract in trading on customers' accounts or for a purpose approved by the Securities and Futures Bureau. When the accumulated default reserve for breach of contract losses reaches NT\$200,000, allocation will cease.

The aforementioned provision for (reversal of) breach of contract losses default reserve is recorded as "other non-interest income (loss), net – breach of contract losses default reserve" and "other liabilities – breach of contract losses default reserve".

Provision for guarantee is the amount of estimated potential losses based on the ending balances of guarantees and acceptances. The aforementioned provision for (reversal of) guarantee is recorded as "bad debt expenses – provision for guarantee" and "other liabilities – provision for guarantee".

22) Pension

The Bank established an employee defined benefit retirement scheme in 1968, which has been revised several times and covers all full-time employees. The scheme provides a lump-sum payment to the retired employees based on years of service and the employees' average monthly salary upon the termination of service. According to the scheme, if the qualified employees retired before year 2000, an additional monthly pension payment equivalent to 30% of average monthly salary upon the termination of service was paid until year 2000.

The Bank adopted the R.O.C. Labor Standards Law on May 1, 1997, and set up the "Retirement Fund Supervisory Committee", approved by the Social Affairs Authority, on June 3, 1998. The Bank has made monthly deposits to the fund in Bank of Taiwan (formerly the Central Trust of China) since July 1998.

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

On July 1, 2005, the Labor Pension Act (LPA) became effective. Employees can choose either the retirement plan defined by Labor Standards Law or the retirement plan defined by the LPA (the New Scheme), retaining the years of service before the LPA effective date. Under the defined contribution scheme of the LPA, the Bank has an obligation to contribute no less than 6% of monthly paid salary to the pension accounts in the Bureau of Labor Insurance.

The measurement date for the Bank's defined benefit pension scheme and actuarial valuations is the balance sheet date. The Bank accrues a minimum pension liability and recognizes pension costs based on the actuarial valuations when the accumulated benefit obligation exceeds the fair value of plan assets. Current and past service costs, transitional liabilities, and gains or losses on pension plan are amortized over the employees' remaining service period on a straight-line basis.

A minimum pension liability usually occurs due to the existence of unrecognized past service costs and unrecognized transitional assets or liabilities. If the amount of minimum pension liability does not exceed the sum of unrecognized past service cost and unrecognized transitional assets or liabilities, then deferred pension costs should be recognized under other assets; otherwise, the difference shall be recognized as net loss from unrecognized pension cost, a reduction of stockholders' equity. Under the defined contribution scheme, the amounts to be contributed for each period shall be recognized as an expense.

23) Share-based compensation

The Standard Chartered PLC Group has set up several share-based compensation schemes. The fair value of share-based awards measured due to the services rendered by employees shall be recognized as an expense at the grant date.

For equity-settled share-based payments, the total amount to be recognized as expenses over the vesting period is determined by the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions, such as profitability and the index of growth rate. The fair value of equity instruments granted shall be based on market prices, if available, at the date of grant. If the market price is not available, the fair value of the equity instruments granted is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the share-based transactions. During the vesting period, the Bank revises its original estimates of the number of share options that are expected to be exercised. The Bank recognizes the impact of the revision of original estimates, if any, in current-period profit or loss.

24) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation Letter No. Ji-Mi-Zih-000000052 issued by the Accounting Research and Development Foundation (ARDF). The Bank estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as current-period profit or loss.

25) Revenue recognition

Interest income and fees and commissions are recognized on an accrual basis.

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

26) Income tax

Estimation of income tax expense is based on the financial income recognized in accordance with financial accounting standards. Due to the differences between the income tax amount in the financial statements and the tax basis of asset and liability accounts, deferred income tax is recognized by taking into account the income tax consequences and enacted tax rates for the periods in which deferred tax liabilities or assets are expected to be settled or realized. The deferred income tax consequences attributable to taxable temporary differences are recognized as deferred tax liabilities. The deferred income tax consequences attributable to deductible temporary differences, loss carryforwards, and income tax credits are recognized as deferred tax assets. The probability of realization of a deferred tax asset is evaluated, and a valuation allowance account is recognized accordingly.

The items that are directly debited or credited to stockholders' equity do not affect pretax financial income for the current period but are, according to the tax laws, included in taxable income, affecting current income tax. Items that are directly debited or credited to stockholders' equity are not included in taxable income, but a difference between the tax basis and the book value of the related asset or liability will arise. When the related asset or liability is recovered or settled, a taxable or deductible amount will result. The deferred tax asset or liability is recognized in the current period.

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 distribute earnings.

The Income Basic Tax Act was announced and became effective on January 1, 2006. 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, with a deduction of NT\$2,000, 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.

27) 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 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 retroactively. If these changes occur after the balance sheet date but before the issuance date of the financial statements, such EPS calculations are also adjusted retroactively. 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(3) Changes in Accounting Principle

Beginning July 1, 2008, the Bank adopted the second amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement" and reclassified its financial assets accordingly. This change in accounting principle did not have any significant impact on the Bank's financial statements as of and for the year ended December 31, 2008.

Beginning January 1, 2008, the Bank adopted R.O.C. SFAS No. 39 "Share-based Payment" and Interpretation Letter No. Ji-Mi-Zih-0000000052 issued by the Accounting Research and Development Foundation (ARDF). The Bank has classified, measured, and disclosed any share-based payment transaction, employee profit-sharing, and regular compensation for directors and supervisors in accordance with the aforementioned standards. The change in the accounting principle does not have a significant impact on the net income for the year ended December 31, 2008.

(4) Disclosures of Significant Accounts

1) Cash and cash equivalents

As of December 31, 2009 and 2008, cash and cash equivalents were as follows:

	2009	2008
Cash in transit	\$ 4,302,736	4,832,908
Deposits with other banks	443,271	569,489
Deposits with affiliates	<u>1,062,952</u>	<u>10,268,544</u>
	<u>\$ 5,808,959</u>	<u>15,670,941</u>

2) Balance at Central Bank, and loans and advances to banks

As of December 31, 2009 and 2008, the balance at the Central Bank and loans and advances to banks were as follows:

	2009	2008
Balance at Central Bank:		
Reserve for deposits – checking account	\$ 3,200,573	6,549,917
Reserve for deposits – demand account	13,628,425	11,174,048
Reserve for deposits – foreign currency	105,572	98,459
Reserve for deposits – settlement accounts	<u>576,292</u>	<u>700,833</u>
	<u>17,510,862</u>	<u>18,523,257</u>
Loans and advances to other banks	33,084,623	30,600,475
Loans and advances to affiliates	<u>63,159,855</u>	<u>49,684,914</u>
	<u>96,244,478</u>	<u>80,285,389</u>
	<u>\$ 113,755,340</u>	<u>98,808,646</u>

Pursuant to the Banking Law, the "reserves for deposits" and "interbank settlement accounts" are calculated at prescribed rates on the average balances of various deposit accounts and deposited with the Central Bank.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

3) Financial assets and liabilities at fair value through profit or loss

As of December 31, 2009 and 2008, financial assets and liabilities at fair value through profit or loss were as follows:

	2009	2008
Trading financial assets:		
Debt instruments	\$ 7,801,409	10,134,705
Derivatives	<u>20,713,469</u>	<u>29,160,804</u>
	<u>\$ 28,514,878</u>	<u>39,295,509</u>
Trading financial liabilities:		
Debt instruments	\$ -	961,541
Derivatives	<u>19,961,310</u>	<u>29,633,428</u>
	<u>\$ 19,961,310</u>	<u>30,594,969</u>

For the years ended December 31, 2009 and 2008, net gain (loss) on financial assets and liabilities at fair value through profit or loss recognized by the Bank were as follows:

	2009	2008
Net gain (loss) on both valuation and disposal of trading financial assets and liabilities:		
Debt instruments	\$ 89,899	806,982
Derivatives	<u>1,359,052</u>	<u>(277,369)</u>
	<u>\$ 1,448,951</u>	<u>529,613</u>
Net gain on both valuation and disposal of financial assets designated at fair value through profit or loss:		
Structured notes	\$ -	<u>61,828</u>
Interest income	<u>\$ 267,967</u>	<u>150,183</u>

4) Accounts receivable

As of December 31, 2009 and 2008, details of accounts receivable were as follows:

	2009	2008
Accounts receivable	\$ 337,546	5,238,023
Acceptance receivable	708,509	1,250,032
Factoring loan receivable without recourse	16,044,809	6,926,319
Interest receivable	1,509,772	2,319,660
Credit card receivable	7,223,801	10,332,004
Compensation receivable	6,141,413	-
Tax refund receivable	321,368	214,462
Others	<u>506,521</u>	<u>1,332,744</u>
	32,793,739	27,613,244
Less: allowance for doubtful accounts — accounts receivable	76,756	82,567
allowance for doubtful accounts — compensation receivable	5,454,655	-
Total	<u>\$ 27,262,328</u>	<u>27,530,677</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Prior to the acquisition by Standard Chartered Group, Hsinchu International Bank Co., Ltd. sold structured notes issued by GVEC Resource IV Inc. (GVEC), a special purpose entity set up by Private Equity Management (PEM) Group, through pecuniary trust during the period from July to December 2006. In April 2009, the US Securities and Exchange Commission investigated the PEM Group and preliminarily determined that it had committed deception. In order to protect certain investors' rights, on July 9, 2009, the Bank bought back all the aforementioned structured notes, which had been valued around USD 191,640 thousand, recorded as account receivable with allowance for doubtful accounts of USD 170,000 thousand and this buyback action was passed by the board meeting.

5) Assets held for sale

The Bank committed to sell the idle assets, building and land on May 29, 2008, and the sales transaction was expected to be completed within a year. The sales of the aforementioned assets held for sale were not completed within one year, and these assets were reclassified into an appropriate asset category in 2009. For the years ended December 31, 2009 and 2008, this decision had no significant impact on the operating performance of the Bank. As of December 31, 2008, the book value of assets held for sale amounted to \$1,794,670.

6) Loans and advances to customers

As of December 31, 2009 and 2008, details of loans and advances to customers were as follows:

	2009	2008
Negotiations and discounts	\$ 2,637,315	1,874,195
Short-term loans and overdrafts	30,516,779	33,552,587
Short-term secured loans	9,127,235	9,925,046
Medium-term loans	57,681,758	68,185,300
Medium-term secured loans	8,021,854	12,754,191
Long-term loans	11,212,658	10,958,745
Long-term secured loans	193,059,868	171,657,012
Non-performing loans	<u>3,102,856</u>	<u>5,316,915</u>
Subtotal	315,360,323	314,223,991
Less: allowance for doubtful accounts	<u>2,273,735</u>	<u>3,697,852</u>
Total	<u>\$ 313,086,588</u>	<u>310,526,139</u>
Mark-to-market adjustments for the hedged assets included in the above balance	<u>\$ -</u>	<u>1,293</u>

The above hedging activities were accounted for as cash flow hedge and fair value hedge for the years ended December 31, 2009 and 2008, respectively.

Allowance for doubtful accounts is provided by evaluating the risk of nonrecovery of specific outstanding loans, and the risk of nonrecovery is assessed by the probability of default.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For the years ended December 31, 2009 and 2008, the movements of allowance for doubtful accounts were as follows:

		2009	
	Specific	General	Total
	provision	provision	
Beginning balance	\$ 2,576,909	1,203,510	3,780,419
Add: provision for doubtful accounts (reversal of pension for doubtful accounts)	10,426,426	(499,548)	9,926,878
Less: write-off	5,815,186	-	5,815,186
adjustment for exchange rate difference and others	86,965	-	86,965
Ending balance	<u>\$ 7,101,184</u>	<u>703,962</u>	<u>7,805,146</u>
		2008	
	Specific	General	Total
	provision	provision	
Beginning balance	\$ 1,641,181	611,071	2,252,252
Add: provision for doubtful accounts	6,992,032	592,439	7,584,471
provision from transfer of operation from AEB	588,416	-	588,416
provision from acquisition of business from ATIC	920,117	-	920,117
adjustment for exchange rate difference and others	31,127	-	31,127
Less: write-off	7,595,964	-	7,595,964
Ending balance	<u>\$ 2,576,909</u>	<u>1,203,510</u>	<u>3,780,419</u>

For the year ended December 31, 2009, the allowance for doubtful accounts was \$7,805,146. This amount consisted of loans and advances to customers of \$2,273,735 and accounts receivable (including compensation receivable) of \$5,531,411. For the year ended December 31, 2008, the allowance for doubtful accounts was \$3,780,419. This amount consisted of loans and advances to customers of \$3,697,852 and accounts receivable of \$82,567.

For the year ended December 31, 2009, the Bank's bad debt expense was \$9,902,218. This amount consisted of bad debt expense for accounts receivable and loans and advances to customers of \$4,472,223, compensation receivable of \$5,454,655, and reversal of provision for guarantee amounting to \$24,660. For the year ended December 31, 2008, the Bank's bad debt expense was \$7,711,246. This amount consisted of bad debt expense for accounts receivable and loans and advances to customers of \$7,584,471 and provision for guarantee amounting to \$126,775.

The Bank collected \$2,274,048 and \$1,814,557 from written-off loans during the years ended December 31, 2009 and 2008, respectively, recorded as recovery from written-off loans. In accordance with the Value-Added and Non-Value-Added Tax Law, the Bank has to accrue 3% of operating revenue as allowance for doubtful accounts for writing off overdue loans. For the years ended December 31, 2009 and 2008, the amounts of allowance for doubtful accounts generated from 3% of operating revenue were \$423,445 and \$598,279, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2009 and 2008, the amounts of outstanding loans with interest charges suspended amounted to \$3,102,856 and \$5,316,915, respectively. The amounts of interest not accrued derived from the aforementioned loans were \$27,714 and \$40,050, respectively.

As of December 31, 2009 and 2008, loans and advances to customers classified by geographic region were as follows:

	2009	2008
Domestic	\$ 306,532,870	304,981,536
Overseas	<u>8,827,453</u>	<u>9,242,455</u>
Total	<u>\$ 315,360,323</u>	<u>314,223,991</u>

As of December 31, 2009 and 2008, information regarding asset quality of loans and advances to customers was as follows:

Product		Period		2009			
		Overdue loan amount	Loan Balance	Overdue ratio	Allowance for bad debts	Coverage rate	
Wholesale Banking	Secured	813,737	23,230,899	3.50 %	330,393	40.60 %	
	Unsecured	885,384	55,217,370	1.60 %	1,039,721	117.43 %	
Consumer Banking	Mortgage	2,436,600	186,664,327	1.31 %	455,150	18.68 %	
	Personal loan	306,396	47,326,707	0.65 %	448,471	146.37 %	
	Others	Secured	-	2,617,285	-	-	-
		Unsecured	-	303,735	-	-	-
Total		4,442,117	315,360,323	1.41 %	2,273,735	51.19 %	
		Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage rate	
Credit card		43,173	7,223,801	0.60 %	66,785	154.69 %	
Factoring loan receivable without recourse		-	16,044,809	-	-	-	

Product		Period		2008			
		Overdue loan amount	Loan Balance	Overdue ratio	Allowance for bad debts	Coverage rate	
Wholesale Banking	Secured	3,598,569	22,519,253	15.98 %	937,433	26.05 %	
	Unsecured	964,878	69,882,158	1.38 %	1,475,013	152.87 %	
Consumer Banking	Mortgage	3,039,771	169,530,423	1.79 %	585,346	19.26 %	
	Personal loan	461,548	48,227,559	0.96 %	700,060	151.68 %	
	Others	Secured	-	3,938,174	-	-	-
		Unsecured	-	126,424	-	-	-
Total		8,064,766	314,223,991	2.57 %	3,697,852	45.85 %	
		Overdue	Accounts receivable	Overdue ratio	Allowance for bad debts	Coverage rate	
Credit card		104,549	10,332,004	1.01 %	72,384	69.23 %	
Factoring loan receivable without recourse		-	6,926,319	-	-	-	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

The information of loans and accounts receivable which need not be reported as non-performing loans or as overdue accounts receivable was as follows:

	2009		2008	
	Loans not required to be reported as non-performing loans	Accounts receivable not required to be reported as overdue accounts receivable	Loans not required to be reported as non-performing loans	Accounts receivable not required to be reported as overdue accounts receivable
The amount not required to be reported for debts under Inter-bank Debt Relief Program without default by debtors	\$ 37,914	176,821	32,524	228,793
The amount not required to be reported for debts under a debt discharge program and rehabilitation program without default by debtors	394,252	-	73,653	-
	<u>\$ 432,166</u>	<u>176,821</u>	<u>106,177</u>	<u>228,793</u>

7) Available-for-sale financial assets

As of December 31, 2009 and 2008, available-for-sale financial assets were as follows:

	2009	2008
Debt instruments:		
Treasury bills	\$ 9,985,487	14,917,405
Government bonds	16,164,082	27,243,530
Commercial paper	192,977	1,020,149
Negotiable certificates of deposit	66,895,496	58,058,480
Financial debentures	5,376,000	9,188,153
Corporate bonds	<u>4,892,330</u>	<u>6,174,224</u>
Subtotal	103,506,372	116,601,941
Beneficiary certificates	4,729,055	4,890,794
Equity instruments	-	<u>36,549</u>
Total	<u>\$ 108,235,427</u>	<u>121,529,284</u>
Mark-to-market adjustments for the hedged assets included in the above balance	<u>\$ 255</u>	<u>621,296</u>

The above hedging activities were accounted for as fair value hedge.

For the years ended December 31, 2009 and 2008, the movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	2009	2008
Beginning balance	\$ 352,768	(888,436)
Add: unrealized (loss) gain recognized in the period	(90,862)	1,179,557
Less: realized gain (loss) on disposal in the period	<u>233,778</u>	<u>(61,647)</u>
Ending balance	<u>\$ 28,128</u>	<u>352,768</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

In December 2005, the carrying value of \$12,005,275 of the mortgage loans was entrusted by the Bank to Deutsche Bank AG, Taipei Branch for issuance of beneficiary certificates via securitization. Deutsche Bank AG, Taipei Branch issued both an "Investor Certificate" and a "Seller Certificate" amounting to \$10,204,484 and \$1,800,791, respectively, at face amount. The duration period of the first beneficiary certificates is from December 20, 2005, to July 20, 2027.

In September 2006, the carrying value of \$13,234,322 of the mortgage loans was entrusted by the Bank to Deutsche Bank AG, Taipei Branch for issuance of beneficiary certificates via securitization. Deutsche Bank AG, Taipei Branch issued both an "Investor Certificate" and a "Seller Certificate" amounting to \$10,322,771 and \$2,911,551, respectively, at face amount. The duration period of the second beneficiary certificates is from September 2006 to the trust distribution date in January 2028.

At the first and second issuance of the beneficiary certificates, the Bank held the subordinated Seller Certificates of \$1,800,791 and \$2,911,551, respectively, which were recorded as available-for-sale financial assets with the right to interest in excess of the fixed amount paid to investors. If the debtors fail to repay the entrusted loans, investors and Deutsche Bank AG, Taipei Branch have no right of recourse to the Bank's other assets. The Bank's right to the repayment of the entrusted loans as subordinated Seller Certificates is inferior to the investors', and the value of these subordinated Seller Certificates is affected by the exposure to credit risk, the early repayment rate, and changes in interest rate on those entrusted loans.

- A. As of December 31, 2009 and 2008, key assumptions used in measuring retained interests were as follows:

	2009	
	First	Second
Prepayment rate (annual rate)— assumption 1	30.00 %	20.00 %
Weighted-average life	0.73 year	1.33 years
Expected credit losses rate (annual rate)— assumption 2	1.50 %	2.50 %
Discounted rate for residual cash flows	2.60 %	2.60 %
	2008	
	First	Second
Prepayment rate (annual rate)— assumption 1	30.00 %	20.00 %
Weighted-average life	1.45 years	2.09 years
Expected credit losses rate (annual rate)— assumption 2	1.50 %	2.00 %
Discounted rate for residual cash flows	2.60 %	2.60 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

B. Sensitivity analysis

As of December 31, 2009 and 2008, if the key economic assumptions as below were adversely changed by 10% and 20%, respectively, the sensitivity of the current fair value of residual cash flows would be as follows:

		2009	
		First	Second
Carrying amount of retained interest	\$	1,725,467	2,633,445
Assumption 1 – impact on fair value of 10% adverse change		(347)	(7,964)
Assumption 1 – impact on fair value of 20% adverse change		(704)	(8,860)
Assumption 2 – impact on fair value of 10% adverse change		(650)	(3,510)
Assumption 2 – impact on fair value of 20% adverse change		(1,301)	(7,019)
		2008	
		First	Second
Carrying amount of retained interest	\$	1,747,147	2,775,773
Assumption 1 – impact on fair value of 10% adverse change		(3,579)	(9,542)
Assumption 1 – impact on fair value of 20% adverse change		(4,714)	(11,614)
Assumption 2 – impact on fair value of 10% adverse change		(1,816)	(1,663)
Assumption 2 – impact on fair value of 20% adverse change		(3,633)	(3,326)

C. As of December 31, 2009 and 2008, there was no actual credit loss on the securitized mortgage loan; therefore, the expected static pool default rate was equal to the expected default rate.

D. Cash flows

The cash flows received from or paid to securitization trusts for the years ended December 31, 2009 and 2008, were summarized as follows:

		2009	
		First	Second
Other cash flows received on retained interests	\$	68,117	94,237
Service fee received		5,000	5,000
Cash received for prepayment for service		529	2,110
Prepayment for service		(530)	(1,933)
		2008	
		First	Second
Other cash flows received on retained interests	\$	83,947	96,751
Service fee received		5,000	5,000
Cash received for prepayment for service		500	1,885
Prepayment for service		(358)	(1,870)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

8) Investment in associates under equity method and financial assets carried at cost

	December 31, 2009			December 31, 2008		
	Percentage of ownership	Investment cost	Book value	Percentage of ownership	Investment cost	Book value
Equity method:						
Standard Chartered Life Insurance Agent Co., Ltd.	100.00	\$ 21	343,738	100.00	21	246,312
Standard Chartered Taiwan Insurance Agent Co., Ltd.	100.00	368	24,764	100.00	368	27,355
Paradigm Assets Management Co., Ltd.	20.00	98,400	95,747	20.00	98,400	95,747
		<u>98,789</u>	<u>464,249</u>		<u>98,789</u>	<u>369,414</u>
Less: accumulated impairment		-	95,747		-	95,747
		<u>\$ 98,789</u>	<u>368,502</u>		<u>98,789</u>	<u>273,667</u>
Financial assets carried at cost:						
Fubon Securities Finance Co., Ltd.	0.99	\$ 38,065	38,065	0.99	38,065	38,065
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
Taipei Forex Inc.	3.18	6,673	6,673	3.03	6,000	6,000
TSC Bio Venture Management, Inc.	5.00	20,250	20,250	5.00	20,250	20,250
Liyu Venture Investment, Inc.	4.76	10,080	10,080	4.76	12,157	12,157
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
Taiwanpay Corporation (formerly Wan Chi Co., Ltd.)	3.35	2,468	2,468	3.35	2,468	2,468
Taiwan Depository and Clearing Corporation	0.17	9,277	9,277	0.17	9,277	9,277
Taiwan Cooperative Bills Finance Corporation	5.24	94,546	94,546	12.74	94,546	94,546
Subtotal		<u>495,208</u>	<u>495,208</u>		<u>496,612</u>	<u>496,612</u>
Less: accumulated impairment		-	202,969		-	202,969
		<u>\$ 495,208</u>	<u>292,239</u>		<u>496,612</u>	<u>293,643</u>

For the years ended December 31, 2009 and 2008, the Bank recognized investment income from investment in associates under the equity method of \$297,240 and \$202,282, respectively. For the years ended December 31, 2009 and 2008, the cash dividends from associates under the equity method was \$202,405 and \$122,740, respectively, which reduced the book value of the investment.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

The shareholders of Hsinchu Futures Co., Ltd., an investee company of the Bank under the equity method, decided to dissolve the company in December 2007; the liquidation was completed on May 29, 2008. The gain on disposal of the investment in and return of capital from the aforementioned dissolved investee company were \$77,090 and \$338,283, respectively, and the gain was recognized as other non-interest income, net.

In 2008, the Bank disposed of the investment in Taiwan Futures Exchange Co., Ltd., classified as financial assets carried at cost. The original investment cost and proceeds from disposal were \$10,250 and \$44,740, respectively. The gain on disposal of the aforementioned investment was \$34,490, which was recognized as other non-interest income, net.

For the years ended December 31, 2009 and 2008, the dividend revenue recognized from financial assets carried at cost was \$16,731 and \$11,673, respectively, recorded as other non-interest income, net.

On December 7, 2009, the Financial Supervisory Commission (FSC) approved the additional investment of \$673 in Taipei Forex Inc., an investee company classified as financial assets carried at cost of the Bank.

9) Property and equipment

As of December 31, 2009 and 2008, details of property and equipment were as follows:

	2009	2008
Cost:		
Land	\$ 3,734,784	3,891,845
Buildings	3,461,529	3,256,382
Office equipment	972,783	1,115,555
Transportation equipment	6,700	7,387
Leasehold improvements	531,490	497,251
Other equipment	<u>2,633,947</u>	<u>3,054,621</u>
Subtotal	11,341,233	11,823,041
Less: accumulated depreciation and impairment	<u>3,801,953</u>	<u>4,132,894</u>
Subtotal	<u>7,539,280</u>	<u>7,690,147</u>
Work in progress	13,826	83,500
Prepayment for equipment	<u>36,285</u>	<u>200,485</u>
Total	<u>\$ 7,589,391</u>	<u>7,974,132</u>

For the years ended December 31, 2009 and 2008, movements of accumulated depreciation were as follows:

	2009	2008
Beginning balance	\$ 4,009,495	3,688,089
Add: depreciation	518,396	657,623
transfer by business assumption	-	91,133
reclassification	27,562	34,041
Less: disposal and obsolescence	<u>777,548</u>	<u>461,391</u>
Ending balance	<u>\$ 3,777,905</u>	<u>4,009,495</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

10) Intangible assets

	2009	2008
Goodwill	\$ 3,156,048	3,384,383
Deferred pension costs	154,333	228,416
Software	<u>205,738</u>	<u>171,335</u>
	<u>\$ 3,516,119</u>	<u>3,784,134</u>

The Bank acquired the assets and liabilities of Asia Trust Investment Co., Ltd. on December 27, 2008. Consequently, the Bank recognized goodwill of \$3,156,048, based on SFAS No. 25 "Business Combinations", as stated in note 10(5).

For the years ended December 31, 2009 and 2008, the recognized amortization expenses from computer software were \$94,330 and \$90,040, respectively, recognized as operating expenses – depreciation and amortization expenses.

11) Other assets

As of December 31, 2009 and 2008, details of other assets were as follows:

	2009	2008
Deferred income tax assets, net	\$ 4,778,567	4,483,638
Idle assets, net of accumulated impairment of \$25,035 and \$3,231 as of December 31, 2009 and 2008, respectively	835,582	29,941
Assets leased to others, net of accumulated impairment of \$181,168 as of December 31, 2009	1,111,532	326,919
Foreclosed assets, net of accumulated impairment of \$121,209 and \$639,827 as of December 31, 2009 and 2008, respectively	-	568,926
Refundable deposits	943,447	1,988,580
Prepaid expenses	228,389	150,506
Others	<u>67,387</u>	<u>165,566</u>
	<u>\$ 7,964,904</u>	<u>7,714,076</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

The Bank leased out its office buildings under operating leases with lease terms ranging from one to five years. As of December 31, 2009, future lease payments to be received were as follows:

Period	Amount
2010	\$ 21,561
2011	13,971
2012	1,852
2013	977
2014 and thereafter	<u>1,003</u>
	<u>\$ 39,364</u>

12) Bills and bonds sold (purchased) under repurchase (reverse repurchase) agreements

As of December 31, 2009 and 2008, the book value of underlying assets of bills and bonds purchased under reverse repurchase agreements was as follows:

	2009	2008
Bills and bonds purchased under reverse repurchase agreements	<u>\$ -</u>	<u>1,179,467</u>

As of December 31, 2008, the settlement date for bills and bonds purchased under reverse repurchase agreements was January 5, 2009; interest rates of the aforementioned reverse repurchase agreements were from 0.50% to 0.65%. The contracted price for the aforementioned reverse repurchase agreements was \$1,179,554.

As of December 31, 2009 and 2008, the book value of underlying assets of bills and bonds sold under repurchase agreements was as follows:

	2009	2008
Bills and bonds sold under repurchase agreements	<u>\$ -</u>	<u>412,853</u>

As of December 31, 2008, the settlement date for bills and bonds sold under repurchase agreements was from January 9 to January 21, 2009; interest rates of the aforementioned repurchase agreements ranged from 0.42% to 1.20%. The contracted price for the aforementioned repurchase agreements was \$413,050.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

13) Deposits and remittances

As of December 31, 2009 and 2008, deposits and remittances were as follows:

	2009	2008
Checking deposits	\$ 3,485,983	3,521,704
Demand deposits	169,908,865	121,712,849
Time deposits	101,109,499	158,826,346
Savings deposits	128,563,288	102,405,129
Time savings deposits	66,268,395	115,443,247
Trust fund with designated purpose	767,371	12,100,450
Remittances	91,994	29,545
Total	<u>\$ 470,195,395</u>	<u>514,039,270</u>
Mark-to-market adjustments for the hedged liabilities included in the above balance	<u>\$ 31,637</u>	<u>82,684</u>

The above hedging activities were accounted for as fair value hedge.

14) Financial debentures

As of December 31, 2009 and 2008, details of subordinated debentures issued by the Bank were as follows:

Bond	Conditions for issuance	2009	2008
91-1A	5-year term, interest payable 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	\$ 1,200	2,900
94-1	No maturity date, interest payable semi-annually, based on the average one-year regular floating rate of the nine largest banks plus 1.493%	7,636,700	7,636,700
94-2	No maturity date, interest payable semi-annually, based on the average one-year regular floating rate of the nine largest banks plus 1.493%	2,363,300	2,363,300
95-1	7-year term, interest payable quarterly, based on the Bank's 90-day commercial paper interest rate plus 0.22%; maturity date: December 27, 2013	-	4,800,000
97-1	10-year term, interest payable quarterly, annual interest rate for the first 5 years is USD 3M LIBOR, plus 2.185%, and USD 3M LIBOR plus 2.685% for the last 5 years; maturity date: March 12, 2018	-	4,922,968
98-1	10-year term, interest payable quarterly, annual interest rate for the first 5 years is 2.9% and 3.4% for the last 5 years; maturity date: October 28, 2019	10,000,000	-
98-2	No maturity date, interest payable 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	4,798,704	-

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Bond	Conditions for issuance	2009	2008
98-3	No maturity date, interest payable 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	\$ 4,798,704	-
		29,598,608	19,725,868
	Mark-to-market adjustment on hedged items	(98,488)	-
		\$ 29,500,120	19,725,868

The board of directors approved the issuance of the first tranche of the subordinated debentures at a total amount \$8,000,000 on April 2, 2002; the MOF then approved this issuance on June 27, 2002 and the related subscription was completed in July 2002.

The board of directors approved the issuance of the cumulative subordinated debentures without maturity dates at a total amount of \$10,000,000 on October 26, 2004. The Financial Supervisory Commission (FSC) then approved the issuance on January 3, 2005, and the related subscription was completed on January 28, 2005.

The board of directors approved the issuance of the first tranche of the unsecured subordinated debentures of year 2006 at a total amount of \$4,800,000 on November 20, 2006. The FSC then approved the issuance on December 4, 2006. These debentures began to be traded on the over-the-counter market on December 27, 2006.

The board of directors approved the issuance of the first tranche of the unsecured subordinated debentures of the year 2008 at a total amount of USD 150,000 thousand equivalent on November 27, 2007. The FSC then approved the issuance on February 29, 2008. These debentures began to be traded on the over-the-counter market on March 12, 2008.

The board of directors approved the issuance of the cumulative subordinated debentures without maturity dates at a total amount of USD 300,000 thousand equivalent on March 25, 2009. The FSC then approved the issuance on September 15, 2009. These debentures began to be traded on the over-the-counter market on December 11, 2009. The first tranche of unsecured subordinated debentures of 95-1 and 97-1, at total amount of \$4,800,000 and USD 150,000 thousand, respectively, were completely redeemed in 2009.

The board of directors approved the issuance of the first tranche of subordinated debentures of the year 2009 at a total amount of \$10,000,000 on June 30, 2009. The FSC then approved the issuance on September 15, 2009. These debentures began to be traded on the over-the-counter market on October 28, 2009.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

15) Interest income

For the years ended December 31, 2009 and 2008, details of interest income were as follows:

	2009	2008
Interbank transactions	\$ 1,514,811	1,770,372
Loans and advances to customers	9,315,448	12,614,939
Credit cards (revolving)	842,696	1,227,047
Financial assets at fair value through profit or loss	267,967	150,183
Available-for-sale financial assets	<u>1,391,468</u>	<u>2,006,636</u>
Total	<u>\$ 13,332,390</u>	<u>17,769,177</u>

16) Other non-interest income (loss)

For the years ended December 31, 2009 and 2008, details of non-interest income (loss) were as follows:

	2009	2008
Securities brokerage commissions	\$ 237,108	167,364
Rental income	49,115	68,743
Net gain on fair value hedge	37,968	3,137
Net gain on disposal of investment	-	111,580
Net loss on disposal of property	(110,080)	(30,701)
Dividend income from financial assets carried at cost	16,731	11,673
Gain on sale of non-performing loans	361,307	-
Loss on obsolescent equipment	(157,061)	-
Others	<u>18,173</u>	<u>73,105</u>
Total	<u>\$ 453,261</u>	<u>404,901</u>

17) Pension

For the years ended December 31, 2009 and 2008, the related pension assets, costs, and accrued liabilities of the Bank were as follows:

	2009	2008
Fair value of pension assets at end of period	\$ 1,571,343	1,969,450
Pension cost:		
Defined benefit pension scheme	508,825	282,206
Defined contribution pension scheme	148,051	157,843
Accrued pension liabilities	565,650	356,207

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

The Bank monthly provided deposits in a pension account for the engaged employees in Bank of Taiwan (formerly the Central Trust of China) in 2009 and 2008. Furthermore, the Bank deposited an amount equal to 6% of the monthly gross salary payment in the Bureau of Labor Insurance in 2009 and 2008. The measurement dates of the actuarial reports were December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the reconciliation of the funded status and accrued pension liabilities was as follows:

	2009	2008
Benefit obligation:		
Vested benefit obligation	\$ (1,431,739)	(1,810,693)
Non-vested benefit obligation	<u>(705,254)</u>	<u>(514,964)</u>
Accumulated benefit obligation	(2,136,993)	(2,325,657)
Additional benefits based on future compensation	<u>(982,543)</u>	<u>(840,747)</u>
Projected benefit obligation	(3,119,536)	(3,166,404)
Fair value of plan assets	<u>1,571,343</u>	<u>1,969,450</u>
Funded status	(1,548,193)	(1,196,954)
Unrecognized net transition obligation	143,221	211,243
Unrecognized prior service cost	11,112	17,173
Unrecognized pension loss	1,303,751	1,032,863
Additional minimum pension liabilities	<u>(475,541)</u>	<u>(420,532)</u>
Accrued pension liabilities	<u>\$ (565,650)</u>	<u>(356,207)</u>
Vested benefit	<u>\$ 1,783,476</u>	<u>2,255,622</u>

For the years ended December 31, 2009 and 2008, the components of net pension cost were as follows:

	2009	2008
Service cost	\$ 177,177	162,841
Interest cost	60,667	66,510
Expected return on pension plan assets	(44,782)	(47,703)
Amortization	83,478	100,558
Curtailment/settlement effect	<u>232,285</u>	<u>-</u>
Net pension cost	<u>\$ 508,825</u>	<u>282,206</u>

Actuarial assumptions for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate	1.50 %	2.50 %
Rate of increase in future compensation	3.50 %	3.50 %
Rate of projected return on plan assets	2.50 %	2.50 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For the years ended December 31, 2009 and 2008, payments for retirement and severance were \$354,391 and \$471,311, respectively. For the years ended December 31, 2009 and 2008, net pension costs for employees rotated from foreign affiliate companies were \$8,030 and \$15,096, respectively.

18) Share-based payments

Standard Chartered PLC Group (the SC PLC Group) has established five main share-based payment schemes for its directors and employees. For the years ended December 31, 2009 and 2008, share-based payment schemes adopted by the Bank were as follows:

A. International Sharesave Schemes

According to the International Sharesave Schemes ("ISS"), employees have the opportunity of a three-year or five-year share-saving contract. Within six months after the vesting period of a three-year or five-year contracted term, employees are entitled to exercise their share options, common shares in SC PLC. The discount on the price of shares that employees are entitled to purchase is up to 20 percent of the price of shares sold on open markets on the settlement date. There is no performance condition having to be satisfied for the employees to become entitled to receive share-based awards.

The option movements of the ISS were as follows:

	2009	2008
Beginning balance	781,577	615,481
Add: granted	150,439	295,981
Less: exercised	19,357	5,953
lapsed	<u>197,145</u>	<u>123,932</u>
Ending balance	<u>715,514</u>	<u>781,577</u>

For the years ended December 31, 2009 and 2008, the cost of the ISS charged to profits or losses was \$96,366 and \$38,572, respectively, recorded as operating expenses – staff costs.

The valuation of share options is performed using a binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation were as follows:

	2009				
		October 9		October 5	
Grant date		October 9		October 5	
Share price at grant date	£	15.57	£	14.92	
Exercise price	£	11.46	£	11.46	
Vesting period (years)		3/5		3/5	
Expected volatility (%)		52.9/43.7		52.9/42.6	
Expected option life (years)		3.33/5.33		3.33/5.33	
Risk free rate (%)		1.8/2.5		1.8/2.5	
Expected dividends (yield) (%)		3.3/3.2		3.3/3.2	
Fair value	£	6.4/6.2	£	5.9/5.8	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2008

Grant date		October 3		September 16
Share price at grant date	£	14.52	£	14.52
Exercise price	£	11.62	£	11.62
Vesting period (years)		3/5		3/5
Expected volatility (%)		39.6/48.7		39.6/48.7
Expected option life (years)		3.33/5.33		3.33/5.33
Risk free rate (%)		2.32/2.53		2.32/2.53
Expected dividends (yield) (%)		2.50/2.73		2.50/2.73
Fair value	£	2.99/3.04	£	2.99/3.04

The expected volatility is based on historical volatility over the last three to five years or three to five 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 yield over the last three years or three years prior to grant. Where two amounts are shown for volatility, risk-free rates, expected dividends yield and fair values, the first relates to a three-year vesting period and the second relates to a five-year vesting period.

B. Restricted Share Scheme

The SC PLC Group established the Restricted Share Scheme ("RSS") to reward and retain employees who have good performance and high potential. SC PLC Group grants RSS awards only at the time of hiring, and there are no performance conditions that must be met. The executive directors are not generally eligible to participate in the RSS. On the second anniversary after the grant date, 50 percent of share-based awards are vested to the employees who are entitled to exercise the RSS. The remaining balance is vested to the aforementioned employees on the third anniversary. The share-based awards can be exercised within seven years after the grant date. The value of share-based awards granted to certain employees in any year cannot exceed two times the base salary of those employees.

The option movements of the RSS were as follows:

	2009	2008
Beginning balance	71,198	54,192
Add: granted	82,020	47,047
Less: exercised	8,909	4,705
lapsed	2,560	25,336
Ending balance	<u>141,749</u>	<u>71,198</u>

For the years ended December 31, 2009 and 2008, the cost of the RSS charged to profits or losses was \$38,002 and \$15,780, respectively, recorded as operating expenses – staff costs.

Under the RSS scheme, the fair value of share-based awards is based on the market value after deducting the adjustment of share dividends during the vesting period.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2009

Grant date	December 3	September 28	September 15	June 23	March 11
Share price at grant date	£ 15.51	£ 14.98	£ 14.44	£ 11.75	£ 8.10
Vesting period (years)	2/3	2/3	2/3	2/3	2/3
Expected dividends (yield) (%)	3.45	3.45	3.45	3.73	3.73
Fair value	£ 14.25	£ 13.76	£ 13.27	£ 10.72	£ 7.39

2008

Grant date	September 16	April 24	March 11
Share price at grant date	£ 13.86	£ 17.82	£ 16.26
Vesting period (years)	2/3	2/3	2/3
Expected dividends (yield) (%)	2.4	2.4	2.4
Fair value	£ 13.06	£ 16.67	£ 15.22

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant.

C. Executive Share Option Scheme

The Executive Share Option Scheme ("ESOS") is designed to improve the Bank's international competitiveness and reward executive directors and their senior management teams for delivering long-term performance. A vesting EPS performance condition must be achieved before executive directors and management are entitled to exercise the share options.

Executives who are entitled to purchase common shares of SC PLC have to exercise the share option between the third and tenth year after the date of grant. The exercise price per share is the market price of that share on the grant date. The share options can be exercised only when certain performance conditions are satisfied. The option movements of the ESOS were as follows:

	2009	2008
Beginning balance	6,005	5,257
Add: granted	-	748
Less: exercised	-	-
lapsed	-	-
Ending balance	<u>6,005</u>	<u>6,005</u>

There were no costs of the ESOS charged to profits or losses recognized in 2009 and 2008.

The valuation of share options is performed using a binomial option-pricing model. There were no such share-based awards granted in 2009.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

D. Performance Share Plan

The Performance Share Plan ("PSP") is designed to be an intrinsic part of total remuneration for the SC PLC Group's executive directors and for a small number of the SC PLC Group's most senior executives. It is an incentive plan focusing on improving long-term competitiveness and encouraging executives to achieve and then exceed the long-term performance goals of the SC PLC Group. The directors are granted an opportunity to purchase shares at nil-price if they still remain employed by the SC PLC Group. The aforementioned directors are allowed to exercise share options between the third and tenth year after the grant date. The SC PLC Group has established policies allowing qualified employees, under certain limited circumstances, to exercise share options in advance.

The option movements of the PSP were as follows:

	2009	2008
Beginning balance	52,383	36,065
Add: granted	61,056	45,645
Less: exercised	-	10,195
lapsed	-	19,132
Ending balance	<u>113,439</u>	<u>52,383</u>

For the years ended December 31, 2009 and 2008, the cost of the PSP charged to profits or losses was \$13,280 and \$8,344, respectively, recorded as operating expenses – staff costs.

Under the PSP scheme, the fair value of share-based awards is based on the market value after deducting the adjustment of share dividends during the vesting period.

	2009			
Grant date	December 3	September 15	June 23	March 11
Share price at grant date	£ 15.51	£ 14.44	£ 11.75	£ 8.10
Vesting period (years)	3	3	3	3
Expected dividends (yield) (%)	3.43	3.43	3.41	3.41
Fair value (EPS)	£ 7.13	£ 6.63	£ 5.40	£ 3.73
Fair value (TSR)	£ 2.81	£ 2.61	£ 2.13	£ 1.46

	2008		
Grant date	September 16	April 24	March 11
Share price at grant date	£ 13.86	£ 17.82	£ 16.26
Vesting period (years)	3	3	3
Expected dividends (yield) (%)	2.6	2.6	2.6
Fair value (EPS)	£ 6.42	£ 8.25	£ 7.53
Fair value (TSR)	£ 2.52	£ 3.25	£ 2.95

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant. The EPS and TSR that are calculated by using fair value are related to the performance indicator. The TSR fair value is derived by discounting 50 percent of the award which is subject to the TSR condition by the loss of expected dividends over the performance period, and the likelihood of meeting the TSR condition which is calculated by the area under the TSR vesting schedule curve.

E. Supplementary Restricted Share Scheme

The Supplementary Restricted Share Scheme ("SRSS") is designed as a retention and motivation tool for high-performing and high-potential employees, encouraging them to deliver long-term performance. After evaluating individual performance and contribution, the board of directors grants qualified employees an opportunity to purchase shares at nil-price. On the second anniversary after the grant date, 50 percent of share-based awards are vested to the employees who are entitled to participate in the SRSS. The remaining balance is vested to the aforementioned employees on the third anniversary. As long as qualified participants remain employed by the SC PLC Group, the share-based awards can be exercised within seven years after the grant date.

The option movements of the SRSS were as follows:

	2009	2008
Beginning balance	5,142	-
Add: granted	<u>8,015</u>	<u>5,142</u>
Ending balance	<u><u>13,157</u></u>	<u><u>5,142</u></u>

For the years ended December 31, 2009 and 2008, the cost of the SRSS charged to profits or losses was \$2,660 and \$436, respectively, recorded as operating expenses – staff costs.

Under the SRSS scheme, the fair value of share-based awards is based on the market value after deducting the adjustment of share dividends during the vesting period.

	2009			
Grant date	December 3	September 15	June 23	March 11
Share price at grant date	£ 15.51	£ 14.44	£ 11.75	£ 8.10
Vesting period (years)	2/3	2/3	2/3	2/3
Expected dividends (yield) (%)	3.45	3.45	3.73	3.73
Fair value	£ 14.25	£ 13.27	£ 10.72	£ 7.39
	2008			
Grant date	September 16		March 11	
Share price at grant date	£ 13.86		£ 16.26	
Vesting period (years)	2/3		2/3	
Expected dividends (yield) (%)	2.4		2.4	
Fair value	£ 13.06		£ 12.41	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant.

19) Income tax

The Bank is subject to R.O.C. income tax at rate of 25%. Starting 2010, the enacted income tax rate will be reduced to 20%, based on the newly amended Income Tax Act. Beginning January 1, 2006, the Bank adopted the R.O.C. "Income Basic Tax Act". The income tax benefit for the years ended December 31, 2009 and 2008, was as follows:

	2009	2008
Current income tax expense	\$ 148,321	284,052
Deferred income tax benefit	(361,838)	(1,254,111)
Additional 10% surtax on undistributed earnings	<u>1,254</u>	<u>-</u>
Income tax benefit	<u><u>\$ (212,263)</u></u>	<u><u>(970,059)</u></u>

The differences between the "expected" income tax at statutory income tax rates and the income tax benefit as reported in the accompanying financial statements for the years ended December 31, 2009 and 2008, were as follows:

	2009	2008
Income tax at statutory rate	\$ (1,218,647)	(238,036)
Adjustment:		
Tax-exempt OBU income	(152,847)	(120,207)
Tax-exempt income from securities trading	(128,074)	(152,354)
Net unrealized (profit) loss on valuation of trading financial assets and liabilities	45,621	(52,568)
Adjustments for separately taxed interest income	(68,085)	(105,613)
Investment income recognized under equity method	(74,310)	(50,571)
Expenses disallowed per tax regulation	2,821	150,517
Prior-year income tax adjustments	(4,097)	54,517
Other adjustments for tax regulation	173,985	9,224
Adjustment due to change in income tax rate	1,211,370	-
Valuation allowance	<u>-</u>	<u>(464,968)</u>
Income tax benefit	<u><u>\$ (212,263)</u></u>	<u><u>(970,059)</u></u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For the years ended December 31, 2009 and 2008, the components of deferred income tax benefit were as follows:

	2009	2008
Realized investment loss from interest in associates under equity method	\$ -	14,870
Deferred revenue	71,401	(131,160)
Provision for guarantee in excess of limit	(12,898)	-
Reserve for trading loss and default loss in excess of limit	(6,295)	(13,499)
Depreciation of property and equipment	14,150	(33,288)
(Pension cost in excess of limit) Reversal of pension costs	(30,887)	25,435
Reversal of (recognized) impairment loss on assets	157,657	(29,553)
Realized gain on inter-affiliate transactions	20	26
Unrealized interest income from financial assets	39,276	42,997
Overestimation (underestimation) of prior years' loss carryforwards	(38,034)	964,835
Increase in loss carryforwards	(757,828)	(1,495,274)
Investment tax credit – employee training cost	-	12,108
Deferred income tax adjustment due to change in tax rate	896,728	-
Allowance for doubtful accounts in excess of limit	(758,249)	(158,593)
Goodwill amortization	63,121	-
Others	-	11,953
Valuation allowance	-	(464,968)
Deferred income tax benefit	<u>\$ (361,838)</u>	<u>(1,254,111)</u>

As of December 31, 2009 and 2008, details of the temporary differences, loss carryforwards and tax credits, and their respective income tax effect were as follows:

	2009		2008	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Reserve for trading losses and default losses	\$ 152,820	30,564	121,342	30,335
Asset impairment loss	585,935	117,187	1,374,220	343,555
Pension costs	321,612	64,322	38,086	9,521
Depreciation of property and equipment	62,399	12,480	133,151	33,288
Unrealized gain on inter-affiliate transactions	5,874	1,175	5,972	1,493
Loss carryforwards	16,150,683	3,230,137	121,171,374	3,042,844
Provision for guarantee	64,490	12,898	-	-
Deferred revenue	463,804	92,762	820,815	205,204
Allowance for doubtful accounts	4,425,621	885,124	634,374	158,593
Unrealized interest income from financial assets	2,438,840	487,768	2,635,219	658,805
Goodwill amortization	(315,605)	(63,121)	-	-
Unrealized gain on available-for-sale financial assets	(463,647)	(92,729)	-	-
	<u>\$ 4,778,567</u>		<u>4,483,638</u>	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2009 and 2008, the components of tax refund receivable recorded under accounts receivable were as follows:

	2009	2008
Current income tax	\$ (148,321)	(284,052)
Withheld income tax	108,160	64,104
Income tax receivable from prior years	214,462	150,358
Prior-year income tax adjustments	4,097	54,517
Separate tax on interest income	144,224	229,535
Additional 10% surtax on undistributed earnings	(1,254)	-
	<u>\$ 321,368</u>	<u>214,462</u>

In accordance with the R.O.C. Income Tax Act, assessed net loss can be carried forward for ten consecutive years to reduce taxable income. As of December 31, 2009, the amount of loss carryforwards and the year of expiry were as follows:

Year loss incurred	Amount	Year of expiry
2006 (reported)	\$ 6,190,278	2016
2008 (reported)	6,171,264	2018
2009 (estimated)	<u>3,789,141</u>	2019
	<u>\$ 16,150,683</u>	

The Bank's income tax returns have been examined by the tax authority for all years through 2004.

The balance of the imputation credit account (ICA) as of December 31, 2009 and 2008, was as follows:

	2009	2008
ICA	<u>\$ 782,529</u>	<u>226,834</u>
	2009 (estimated)	2008 (actual)
Tax creditable ratio of distribution of retained earnings generated from fiscal years 2009 and 2008 to R.O.C. residents	<u>0.00 %</u>	<u>33.33 %</u>

The accumulated earnings (deficits) as of December 31, 2009 and 2008, were all generated after 1998. Due to the Bank having a net loss in 2009, no earnings were available for distribution, and accordingly, no tax creditable ratio calculation is necessary.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

20) Stockholders' equity

A. Common stock

On September 29 and October 22, 2008, the board of directors approved an increase in capital by issuance of 328,000 thousand shares at \$20 per share via private placement. The board of directors had authorized the chairman to set December 5, 2008, as the basis date for the capital increase, and the related registration was completed.

On June 30, 2009, the board of directors approved an increase in capital by issuance of 425,000 thousand shares at \$20 per share via private placement. The board of directors had authorized the chairman to set December 21, 2009, as the basis date for the capital increase, and the related registration was completed.

B. Capital surplus

The R.O.C. Company Act requires capital surplus to be used to offset an accumulated deficit before capitalization to be common stock, with the restriction that capital surplus can never be distributed as cash dividends. The aforementioned capital surplus includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Bank. The amount of capital surplus capitalized each year may not exceed a certain percentage of the Bank's issued share capital. Capitalization of capital surplus provided by the amount in excess of par value is limited to once a year and cannot be made in the same year when the excess is generated through issuance of new shares.

As of December 31, 2009 and 2008, details of capital surplus were as follows:

	2009	2008
Capital surplus provided by the amount in excess of par value	\$ <u>10,430,441</u>	<u>6,183,410</u>

On May 29, 2008, the shareholders approved the elimination of the accumulated deficits by transfer of appropriated special reserve and capital surplus of \$332 and \$2,145,349, respectively.

C. Legal reserve and appropriated special reserve

Whenever the Bank generates a profit, 30 percent of its net income is appropriated as legal reserve after the deduction of income tax. Until the amount of the legal reserve has reached the total amount of capital, the amount of profit distributed as cash dividends may not exceed 15 percent of total capital. The aforementioned rule is not required to be complied with if the amount of legal reserve is equal to the total amount of 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 2008 earnings on June 30, 2009, and appropriated legal reserve of \$5,374.

D. Dividend policy and appropriation of earnings

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:

- a. Shareholders' dividends and bonuses: 99.99%

(Continued)

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

- b. Employee bonuses: 0.01%

The appropriation of the aforementioned special reserve is required by law, or is proposed by the board of directors, depending on the needs for business operations. The board of directors can propose to the annual shareholders' meeting a resolution regarding the proportion of employee bonuses for distribution if necessary.

The amount of bonuses distributed to employees who remain employed at the end of the year is also resolved by the board of directors.

The relevant information about earnings distribution or deficit compensation approved by the board of directors can be accessed through the Market Observation Post System or other sites.

In the year 2009, no retained earnings were available for distribution due to the net loss.

- E. Weighted-average outstanding shares of common stock

As of December 31, 2009 and 2008, the weighted-average number of common shares outstanding was 2,510,024 thousand shares and 2,184,905 thousand shares, respectively.

21) Disclosure of financial instruments

- A. Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

- a. The book value of financial instruments which have a short maturity period will be considered their fair value. This assumption is used in evaluating the following accounts: cash and cash equivalents, balance at Central Bank and loans and advances to banks, bills and bonds purchased under reverse repurchase agreements, accounts receivable, refundable deposits recorded as other assets, deposits by Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, and guarantee deposits.
- b. The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets is the quoted market prices if the instruments are actively traded in the market. If a quoted market price is unavailable, the fair value is determined based on certain valuation techniques.
- c. The interest on loans and advances to customers is mainly based on floating rates. Therefore, the book value is approximately equal to the fair value.
- d. Other financial assets held by the Bank include unlisted equity shares over which the Bank is unable to exercise significant influence and derivatives that are linked to or deemed to be settled by the aforementioned shares. In accordance with the guidelines for preparation of financial statements by public banks, the aforementioned financial assets shall be evaluated at cost.
- e. Most deposits and remittances mature in less than one year, and therefore the book value is equal to the fair value. The fair value of deposits with maturity over one year is the net present value of future cash flows.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- f. Subordinated debentures are financial liabilities with floating interest rates, and therefore their fair value is equal to their carrying value.
- g. When derivatives and structured notes lack quoted market prices in active markets, the Black-Scholes model is applied to calculate the fair value of option contracts; forward contracts are evaluated individually using the rates quoted on the FBS system to discount their future cash flows to present values; interest rate swap and cross-currency swap contracts are evaluated individually using quotes from counterparties or from the Reuters system to discount their future cash flows to present value.

As of December 31, 2009 and 2008, the fair values of the Bank's financial assets and liabilities evaluated using valuation techniques were as listed below:

Accounts	2009	2008
Financial assets at fair value through profit or loss – debt instruments	7,801,409	10,134,705
Financial assets at fair value through profit or loss – derivatives	20,713,469	29,160,804
Available-for-sale financial assets – debt instruments	103,506,372	116,601,941
Available-for-sale financial assets – beneficiary certificates	4,729,055	4,890,794
Available-for-sale financial assets – equity securities	-	36,549
Financial liabilities at fair value through profit or loss – debt instruments	-	961,541
Financial liabilities at fair value through profit or loss – derivatives	19,961,310	29,633,428

For the years ended December 31, 2009 and 2008, the Bank recognized gain amounting to \$2,228,263 and \$1,678,648, respectively, from the changes in fair value of financial instruments that were evaluated using valuation techniques.

- B. As of December 31, 2009 and 2008, outstanding derivative contracts held by the Bank were as listed below:

	Notional amount	December 31, 2009 Fair value	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 103,353,309	977,667	971,665
Forward contracts	510,240,073	6,835,654	4,067,496
Cross-currency swaps	138,824,441	4,253,060	2,849,562
Interest rate swaps	930,428,026	7,091,197	10,624,630
Interest rate derivatives	105,113,077	681,981	574,047
Commodity swaps	39,420,008	873,910	873,910
	<u>\$ 1,827,378,934</u>	<u>20,713,469</u>	<u>19,961,310</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

	Notional amount	December 31, 2008 Fair value	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 91,538,316	1,854,906	1,837,996
Forward contracts	285,198,165	4,117,268	4,019,003
Cross-currency swaps	182,767,938	2,420,917	2,339,731
Interest rate swaps	1,028,929,483	12,951,936	16,634,731
Interest rate derivatives	158,671,144	7,304,017	4,290,207
Commodity swaps	<u>7,599,942</u>	<u>511,760</u>	<u>511,760</u>
	<u>\$ 1,754,704,988</u>	<u>29,160,804</u>	<u>29,633,428</u>

Note: The above derivative contracts do not include hedging instruments.

C. Financial risk management and risk information

a. Market risk

The Bank has been applying value at risk to assess the market risk of financial instruments. When negative changes in market factors arise, the value at risk states the potential losses at certain holding periods and confidence levels. The Bank estimated its value at risk for each held or issued financial instrument based on the fluctuation of the related historical price during the 250 trading days in the previous year.

The table below lists the market risk of financial instruments of the Bank as of December 31, 2009 and 2008. Market risk represents potential losses that the Bank may suffer in one day when unfavorable changes occur that go against the Bank's position at a 97.5% confidence interval under a certain price probability distribution.

Type of market risk		2009			2008		
		Annual average	Maximum	Minimum	Annual average	Maximum	Minimum
Exchange rate	\$	12,157	23,387	2,896	4,284	8,442	1,670
Interest rate		39,791	67,307	25,878	51,881	69,520	33,390

b. Credit risk

Potential losses on financial instruments held or issued by the Bank may arise due to nonfulfillment of contractual obligations by the counterparties. When placing loans, loan commitments, or loan guarantees, the Bank conducts its credit assessment on the counterparty. As of December 31, 2009 and 2008, the percentage of loans with collateral was 67.39% and 62.37%, respectively. The collateral obtained from loans, commitments, and guarantees consisted of cash and cash equivalents, inventories, marketable securities, and other assets. When counterparties breach agreements or contracts, the Bank has rights over the collateral, which can mitigate the credit risk. However, when disclosing the amount of maximum credit risk exposure, the fair value of collateral is ignored. No additional disclosure was provided for financial assets associated with credit risks since their book value, net of corresponding valuation allowance, reflects their credit exposures.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2009 and 2008, the maximum credit risk exposure of the Bank's loans and advances to customers in the event of other parties failing to perform their obligations was as summarized below by industry category:

Industry	2009	2008
Manufacturing	\$ 38,502,036	43,121,263
Commercial	11,805,610	20,478,931
Construction	1,789,587	2,473,366
Individual	241,855,850	224,397,246
Others	<u>21,407,240</u>	<u>23,753,185</u>
	<u>\$ 315,360,323</u>	<u>314,223,991</u>

The amount of the abovementioned credit risk was assessed based on the financial instruments with positive fair value at the balance sheet date and contracts with off-balance-sheet commitments and guarantees. Concentration of credit risk refers to the significant risks from all financial instruments, regardless of whether the risks are from an individual counterparty or group of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank maintains trading positions in a number of markets and with a variety of counterparties or obligors.

As of December 31, 2009 and 2008, the industry classifications of the 10 group enterprises with the largest outstanding loans were as follows:

December 31, 2009			
Rank	Industry Classification of Group Enterprise	Outstanding loan	% of net assets
1	LCD and components manufacturing industry	2,472,854	7.05 %
2	Other computer peripheral manufacturing industry	1,775,956	5.06 %
3	Semiconductor manufacturing industry	1,666,746	4.75 %
4	Footwear manufacturing industry	1,430,094	4.08 %
5	Wire and cable manufacturing industry	1,373,170	3.91 %
6	Wholesale industry	1,165,000	3.32 %
7	Property leasing industry	1,043,723	2.97 %
8	Cable TV and other pay program industry	1,010,316	2.88 %
9	Wholesale industry	961,189	2.74 %
10	Semiconductor manufacturing industry	880,545	2.51 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

December 31, 2008			
Rank	Industry Classification of Group Enterprise	Outstanding loan	% of net assets
1	LCD and components manufacturing industry	5,832,056	18.45 %
2	LCD and components manufacturing industry	3,176,869	10.05 %
3	Footwear manufacturing industry	2,321,744	7.35 %
4	Semiconductor manufacturing industry	1,858,966	5.88 %
5	Wholesale industry	1,618,000	5.12 %
6	Car manufacturing industry	1,550,167	4.91 %
7	Financial leasing industry	1,363,751	4.32 %
8	Semiconductor manufacturing industry	1,277,007	4.04 %
9	Wire and cable manufacturing industry	1,262,486	4.00 %
10	Cable TV and other pay program industry	1,173,226	3.71 %

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.

Potential losses are assessed equal to the contractual amounts when the counterparties are unable to perform their contractual obligations and the related collateral is significantly devaluated.

c. Liquidity risk

As of December 31, 2009 and 2008, the liquidity reserve ratio was 23.56% and 23.28%, respectively; the Bank has enough liquidity to fulfill all contractual obligations. Liquidity risk of derivative instruments held by the Bank is low except for interest rate swaps, which had a leverage effect. Therefore, there is no significant liquidity risk.

One of the most important aspects of the Bank's management is to match its assets and liabilities with related interest rates and durations. Due to variation and uncertainties of contractual terms, the interest rates and maturity dates of assets and liabilities may not be matched, which may cause considerable impact on was the liquidity profile of the Bank. As of December 31, 2009 and 2008, the liquidity of the Bank was assessed by groups of interest-earning assets and interest-bearing liabilities over various duration periods from the balance sheet date to an individual contract's maturity. If the assets or liabilities have no identified maturity date, they are classified to the "over 5 years" category.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Assets	2009				Total
	Within 3 months	3 months-1 year	1~5 years	Over 5 years	
Cash and cash equivalents	\$ 4,746,007	-	-	1,062,952	5,808,959
Balance at Central Bank and loans and advances to banks	19,241,649	17,149,119	-	77,364,572	113,755,340
Financial assets at fair value through profit or loss	3,370,710	3,865,240	20,890,859	388,069	28,514,878
Loans and advances to customers, net	34,226,389	2,580,670	35,862,195	234,117,334	306,786,588
Available-for-sale financial assets	63,946,293	22,388,028	6,134,580	4,489,035	96,957,936
Other financial assets	47,760	119	-	292,239	340,118
Other assets	10,922,386	14,718,970	3,958,880	17,101,008	46,701,244
Hedged items	-	7,507,428	10,070,063	-	17,577,491
Total assets	<u>\$ 136,501,194</u>	<u>68,209,574</u>	<u>76,916,577</u>	<u>334,815,209</u>	<u>616,442,554</u>
Liabilities					
Deposits by Central Bank and other banks	\$ 23,933,453	3,624,234	-	21,797,909	49,355,596
Financial liabilities at fair value through profit or loss	3,207,850	4,183,786	12,283,559	286,115	19,961,310
Deposits and remittances	375,497,233	55,473,238	8,693,289	799,998	440,463,758
Financial debentures	1,200	-	-	19,597,408	19,598,608
Other financial liabilities	331,065	-	-	-	331,065
Other liabilities	3,827,620	1,851,966	1,023,982	5,386,455	12,090,023
Hedged items	17,733,149	21,900,000	-	-	39,633,149
Total liabilities	<u>\$ 424,531,570</u>	<u>87,033,224</u>	<u>22,000,830</u>	<u>47,867,885</u>	<u>581,433,509</u>
Gap	<u>\$ (288,030,376)</u>	<u>(18,823,650)</u>	<u>54,915,747</u>	<u>286,947,324</u>	<u>35,009,045</u>
2008					
Assets	Within 3 months	3 months-1 year	1~5 years	Over 5 years	Total
Cash and cash equivalents	\$ 15,670,941	-	-	-	15,670,941
Balance at Central Bank and loans and advances to banks	70,279,034	16,639,873	-	11,889,739	98,808,646
Financial assets at fair value through profit or loss	6,616,896	5,797,917	23,027,755	3,852,941	39,295,509
Loans and advances to customers, net	33,378,176	18,616,208	50,473,762	207,705,160	310,173,306
Available-for-sale financial assets	33,267,968	47,827,041	15,348,802	10,662,838	107,106,649
Other financial assets	178,650	-	-	225,219	403,869
Other assets	14,199,596	7,688,613	11,833,263	16,529,351	50,250,823
Hedged items	-	3,120,325	9,005,437	2,649,706	14,775,468
Total assets	<u>\$ 173,591,261</u>	<u>99,689,977</u>	<u>109,689,019</u>	<u>253,514,954</u>	<u>636,485,211</u>
Liabilities					
Deposits by Central Bank and other banks	\$ 16,600,098	4,437,904	-	-	21,038,002
Financial liabilities at fair value through profit or loss	6,402,102	6,304,738	17,233,912	654,217	30,594,969
Deposits and remittances	366,801,973	119,471,725	8,360,260	5,312	494,639,270
Financial debentures	2,900	-	-	19,722,968	19,725,868
Other financial liabilities	624,367	-	-	-	624,367
Other liabilities	3,624,743	10,061,802	76,090	5,101,100	18,863,735
Hedged items	-	19,400,000	-	-	19,400,000
Total liabilities	<u>\$ 394,056,183</u>	<u>159,676,169</u>	<u>25,670,262</u>	<u>25,483,597</u>	<u>604,886,211</u>
Gap	<u>\$ (220,464,922)</u>	<u>(59,986,192)</u>	<u>84,018,757</u>	<u>228,031,357</u>	<u>31,599,000</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Maturity analyses of the Bank's assets and liabilities in statutory form were as follows:

Structure Analysis of Maturity Date (New Taiwan Dollars)
December 31, 2009

	Total	Remaining period to expiration				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Capital provided	\$ 714,384,894	237,231,273	70,641,377	38,345,980	44,762,699	323,403,565
Capital used	749,893,572	174,460,708	118,181,672	90,897,321	59,843,803	306,510,068
Gap	(35,508,678)	62,770,565	(47,540,295)	(52,551,341)	(15,081,104)	16,893,497

Structure Analysis of Maturity Date (U.S. Dollars)
December 31, 2009

(expressed in thousands of US dollars)

	Total	Remaining period to expiration				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Capital provided	\$ 11,525,663	3,460,335	2,646,084	2,182,517	1,038,473	2,198,254
Capital used	10,660,644	6,021,755	1,966,569	556,611	297,698	1,818,011
Gap	865,019	(2,561,420)	679,515	1,625,906	740,775	380,243

Structure Analysis of Maturity Date (New Taiwan Dollars)
December 31, 2008

	Total	Remaining period to expiration				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Capital provided	\$ 727,092,937	155,943,974	89,057,473	80,955,618	65,663,955	335,471,917
Capital used	747,681,921	133,912,917	130,538,318	104,525,218	119,489,037	259,216,431
Gap	(20,588,984)	22,031,057	(41,480,845)	(23,569,600)	(53,825,082)	76,255,486

Structure Analysis of Maturity Date (U.S. Dollars)
December 31, 2008

(expressed in thousands of US dollars)

	Total	Remaining period to expiration				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 180 to 1 year	Over 1 year
Capital provided	\$ 9,158,769	3,562,427	2,492,578	1,491,328	257,759	1,354,677
Capital used	9,638,825	3,533,409	1,920,109	1,322,078	507,399	2,355,830
Gap	(480,056)	29,018	572,469	169,250	(249,640)	(1,001,153)

d. Cash flow risk and fair value risk from changes in interest rate

Future cash flow from the assets and liabilities with floating interest rates held by the Bank may fluctuate due to changes in market interest rates. Since such cash flow risk and fair value risk are assessed as potentially significant, the Bank has entered into interest rate swap contracts to mitigate the risk.

As of December 31, 2009 and 2008, the Bank presumed that the expected re-pricing dates and maturity dates were not affected by contractual terms. The interest rate risks listed below are stated based on the book value of financial assets and liabilities held by the Bank and classified based on the earlier of the maturity date or re-pricing date.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Assets	December 31, 2009									Total
	Within 1 month	1-3 months	3 months ~ 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Non-interest	
Cash and cash equivalents	\$ 5,806,520	-	-	-	-	-	-	-	2,439	5,808,959
Balance at Central Bank and loans and advances to banks	55,589,708	20,520,526	36,807,808	331,969	204,831	-	300,498	-	-	113,755,340
Financial assets at fair value through profit or loss	28,469,016	2,155	38,686	3,285	-	-	1,736	-	-	28,514,878
Loans and advances to customers, net	16,220,219	17,200,038	3,435,473	4,879,125	9,526,561	12,014,508	9,442,000	228,530,090	5,538,574	306,786,588
Available-for-sale financial assets	49,145,047	15,098,211	17,710,158	8,298,485	780,041	1,383,693	53,266	4,489,035	-	96,957,936
Other financial assets	47,760	-	119	-	-	-	-	292,239	-	340,118
Other assets	3,080,578	7,128,006	11,473,181	647,324	45,365	-	-	16,059,717	8,267,073	46,701,244
Hedged items	-	-	7,507,428	6,421,339	1,866,616	1,462,508	319,600	-	-	17,577,491
Total assets	\$ 158,358,848	59,948,936	76,972,853	20,581,527	12,423,414	14,860,709	10,117,100	249,371,081	13,808,086	616,442,554
Liabilities										
Deposits by Central Bank and other banks	\$ 45,131,236	600,126	3,624,234	-	-	-	-	-	-	49,355,596
Financial liabilities at fair value through profit or loss	19,961,310	-	-	-	-	-	-	-	-	19,961,310
Deposits and remittances	343,399,383	31,665,361	55,473,238	7,789,548	522,100	100,000	281,642	831,634	400,852	440,463,758
Financial debentures	19,598,608	-	-	-	-	-	-	-	-	19,598,608
Other financial liabilities	232,577	-	-	-	-	-	-	98,488	-	331,065
Other liabilities	2,749,905	-	100,181	154,633	-	1,084	8,810	4,064,268	5,011,142	12,090,023
Hedged items	11,933,149	5,800,000	21,900,000	-	-	-	-	-	-	39,633,149
Total liabilities	\$ 443,006,168	38,065,487	81,097,653	7,944,181	522,100	101,084	290,452	4,994,390	5,411,994	581,433,509
Sensitivity gap	\$ (284,647,320)	21,883,449	(4,124,800)	12,637,346	11,901,314	14,759,625	9,826,648	244,376,691	8,396,092	35,009,045

Assets	December 31, 2008									Total
	Within 1 month	1-3 months	3 months ~ 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Non-interest	
Cash and cash equivalents	\$ 15,468,555	-	-	-	-	-	-	-	202,386	15,670,941
Balance at Central Bank and loans and advances to banks	59,643,348	22,525,425	16,639,873	-	-	-	-	-	-	98,808,646
Financial assets at fair value through profit or loss	38,226,014	968,702	41,375	3,640	15,281	-	96	40,401	-	39,295,509
Loans and advances to customers, net	12,237,958	20,592,571	19,334,122	7,856,424	12,414,786	10,466,119	19,730,022	207,541,304	-	310,173,306
Available-for-sale financial assets	15,285,145	17,662,599	48,762,621	8,541,615	4,708,446	3,204,117	4,107,971	4,834,135	-	107,106,649
Other financial assets	81,325	-	-	-	-	-	-	225,219	97,325	403,869
Other assets	9,281,234	5,181,915	4,054,866	273,453	-	-	-	25,124,280	6,335,075	50,250,823
Hedged items	-	-	3,120,325	2,075,490	3,712,832	-	3,217,115	2,649,706	-	14,775,468
Total assets	\$ 150,223,579	66,931,212	91,953,182	18,750,622	20,851,345	13,670,236	27,055,204	240,415,045	6,634,786	636,485,211
Liabilities										
Deposits by Central Bank and other banks	\$ 13,543,286	2,892,676	4,602,040	-	-	-	-	-	-	21,038,002
Financial liabilities at fair value through profit or loss	29,014,721	862,685	3,540	90,313	165,515	153,934	100,298	203,963	-	30,594,969
Deposits and remittances	294,499,102	72,117,430	119,627,621	7,694,075	666,255	-	-	-	34,787	494,639,270
Financial debentures	4,802,900	-	14,922,968	-	-	-	-	-	-	19,725,868
Other financial liabilities	624,367	-	-	-	-	-	-	-	-	624,367
Other liabilities	-	-	-	-	-	-	-	4,693,867	14,169,868	18,863,735
Hedged items	-	-	19,400,000	-	-	-	-	-	-	19,400,000
Total liabilities	\$ 342,484,376	75,872,791	158,556,169	7,784,388	831,770	153,934	100,298	4,897,830	14,204,655	604,886,211
Sensitivity gap	\$ (192,260,797)	(8,941,579)	(66,602,987)	10,966,234	20,019,575	13,516,302	26,954,906	235,517,215	(7,569,869)	31,599,000

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Sensitivity analyses of the Bank's assets and liabilities in statutory form were as follows:

Interest-Rate Sensitivity Analysis (New Taiwan Dollars) December 31, 2009

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 112,825,713	28,153,812	37,724,681	238,755,792	417,459,998
Interest-rate-sensitive liabilities	83,005,668	256,715,791	42,230,731	21,864,993	403,817,183
Interest-rate-sensitive spread	29,820,045	(228,561,979)	(4,506,050)	216,890,799	13,642,815
New worth					35,009,045
Ratio of interest-rate-sensitive assets to liabilities (%)					103.38
Ratio of interest-rate-sensitive spread to net worth (%)					38.97

Interest-Rate Sensitivity Analysis (U.S. Dollars) December 31, 2009

(expressed in thousands of US dollars)

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 1,980,943	676,358	506,017	213,325	3,376,643
Interest-rate-sensitive liabilities	1,299,790	1,474,728	76,413	325,387	3,176,318
Interest-rate-sensitive spread	681,153	(798,370)	429,604	(112,062)	200,325
Net worth					33,777
Ratio of interest-rate-sensitive assets to liabilities (%)					106.31
Ratio of interest-rate-sensitive spread to net worth (%)					593.08

Interest-Rate Sensitivity Analysis (New Taiwan Dollars) December 31, 2008

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 302,794,712	41,697,833	22,966,809	81,654,834	449,114,188
Interest-rate-sensitive liabilities	133,359,220	188,295,163	71,941,060	44,494,966	438,090,409
Interest-rate-sensitive spread	169,435,492	(146,597,330)	(48,974,251)	37,159,868	11,023,779
Net worth					31,599,000
Ratio of interest-rate-sensitive assets to liabilities (%)					102.52
Ratio of interest-rate-sensitive spread to net worth (%)					34.89

Interest-Rate Sensitivity Analysis (U.S. Dollars) December 31, 2008

(expressed in thousands of US dollars)

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 1,877,588	548,645	1,771	166,927	2,594,931
Interest-rate-sensitive liabilities	2,673,370	130,280	64,722	150,589	3,018,961
Interest-rate-sensitive spread	(795,782)	418,365	(62,951)	16,338	(424,030)
Net worth					38,916
Ratio of interest-rate-sensitive assets to liabilities (%)					85.95
Ratio of interest-rate-sensitive spread to net worth (%)					(1,089.60)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

e. Average amount and average interest rate of interest-bearing assets and liabilities:

	2009	
	Average amount	Average %
Assets:		
Balance at Central Bank	12,873,223	0.40
Loans and advances to banks (including deposits with affiliate companies and advances to affiliate companies)	110,119,613	1.51
Loans and advances to customers	319,925,693	2.92
Financial assets at fair value through profit or loss	4,702,969	1.39
Available-for-sale financial assets	107,503,638	1.30
Liabilities:		
Deposits by Central Bank and loans from other banks (including deposits from affiliate companies)	39,210,577	0.69
Demand deposits (including local currency and foreign currency)	279,851,246	0.19
Time deposits (including local currency and foreign currency)	216,548,149	1.34
Negotiable certificates of deposit	620,953	0.58
Financial debentures	21,647,792	2.52
	2008	
	Average amount	Average %
Assets:		
Balance at Central Bank	\$ 11,330,053	1.19
Loans and advances to banks (including deposits with affiliate companies and advances to affiliate companies)	51,280,842	3.19
Loans and advances to customers	304,051,439	4.13
Financial assets at fair value through profit or loss	6,209,404	2.39
Available-for-sale financial assets	84,632,509	2.37
Liabilities:		
Deposits by Central Bank and loans from other banks (including deposits from affiliate companies)	37,366,885	2.46
Demand deposits (including local currency and foreign currency)	203,912,994	0.43
Time deposits (including local currency and foreign currency)	193,975,747	2.50
Negotiable certificates of deposit	1,443,604	1.82
Financial debentures	19,243,069	3.76

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

f. Operational risk

Operational risk can be defined as the risk of monetary losses resulting from inadequate or failed internal processes, people, and systems or from external events. The Bank implements monitoring systems for operational risk exposures and losses for major business lines. Risk management policies and procedures for controlling or mitigating operational risk are in place and enforced through regular internal auditing.

g. Legal risk

Legal risk arises from the possibility that an entity may not be able to comply with regulations issued by the government and may not be able to enforce a contract against another party. Legal risk arises from possible risk of loss due to an unenforceable contract or an "ultra vires" act of a counterparty. Legal risk involves the potential illegality of the contract, as well as the possibility that the other party entered into the contract without proper authority. The legal affairs department of the Bank is responsible for providing professional legal consulting and review services for internal regulations and all trading contracts, and making sure that the Bank follows the financial regulations and operational regulations.

D. Fair value hedge

A fair value hedge is the hedging of the exposure to changes in fair value of recognized fixed-rate assets or liabilities that are attributable to particular interest risks that could affect profit or loss. As of December 31, 2009 and 2008, mark-to-market adjustments of hedged items and the corresponding hedging instruments accounted as a fair value hedge were as follows:

Hedged item			Hedging instruments		
Underlying instruments	2009		Contract type	2009	
Available-for-sale financial assets:					
Government bonds and corporate bonds	\$ 10,017		Interest rate swaps	\$ (10,906)	
Government bonds	(9,762)		Cross-currency swaps	11,115	
Time deposits – NTD	(31,637)		Interest rate swaps	31,581	
Subordinated debentures	98,488		Interest rate swaps	(101,382)	
	<u>\$ 67,106</u>			<u>\$ (69,592)</u>	
Hedged item			Hedging instruments		
Underlying instruments	2008		Contract type	2008	
Loans and advances to customers	\$ 1,293		Interest rate swaps	\$ (909)	
Available-for-sale financial assets:					
Governments bonds	621,296		Interest rate swaps	(623,458)	
Time deposits – NTD	(82,684)		Interest rate swaps	81,324	
	<u>\$ 539,905</u>			<u>\$ (543,043)</u>	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

E. Cash flow hedge

A cash flow hedge is the hedging of the exposure to changes in cash flows of recognized floating-rate assets that are attributable to particular interest risks that could affect profit or loss.

As of December 31, 2009, details of hedged items and designated hedging instruments were summarized as follows:

Hedged items	Financial instrument designated as hedging instruments	Designated hedging instruments		Forecasted period of cash flow generation	Forecasted period during which gain/loss is recognized in the income statement
		Notional	Fair value		
Long-term floating rate loans	Interest rate swap contracts	\$ 6,300,000	3,253	2009-2012	2009-2012

The details of unrealized gains or losses on cash flow hedge for the year ended December 31, 2009, were as below:

2009

Adjustments to stockholders' equity \$ 3,253

23) Information on reclassification of financial assets

A. The amount and the reason for reclassification of financial assets:

**For the year ended
December 31, 2008
Reclassified available-for-sale
financial assets**

Items which were initially classified as financial assets for trading \$ 767,012

Due to the changes in the domestic and global financial and economic trends, where the facts and circumstances indicated that the situations were those rare ones stated in item 1 (3)② of paragraph 104 of SFAS No. 34 "Financial Instruments: Recognition and Measurement," the Bank reclassified its debt instruments to available-for-sale financial assets from those classified as financial assets for trading at initial recognition.

B. Reclassification of book value and fair value of financial assets:

**For the year ended
December 31, 2008**

Book value	Fair value
------------	------------

Available-for-sale financial assets	\$ <u>362,922</u>	<u>367,914</u>
-------------------------------------	-------------------	----------------

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- C. Reclassification of the movement of financial assets at fair value through profit or loss or through stockholders' equity was as below:

	Items which were classified as financial assets for trading Gains on financial assets at fair value through profit or loss if not reclassified	The amount recognized in profit under reclassification
For the year ended December 31, 2008	\$ <u>5,826</u>	<u>2,182</u>

For the year ended December 31, 2008, gains on the Bank's financial assets prior to the reclassification of financial assets from the trading category amounted to \$10,918.

(5) Related-party transactions

- 1) Name and relationship of related party

Name	Relationship
Standard Chartered Bank (SCB)	The Bank's parent company
Standard Chartered Life Insurance Agent Co., Ltd. (Standard Chartered Life Insurance Agent)	Investee under equity method
Standard Chartered Taiwan Insurance Agent Co., Ltd. (Standard Chartered Taiwan Insurance Agent)	Investee under equity method
Hsinchu Futures Co., Ltd. (Hsinchu Futures)	Investee under equity method (liquidated on May 29, 2008)
Standard Chartered Bank Taipei Branch (SCB Taipei)	Affiliate
Standard Chartered Bank New York (SCB New York)	Affiliate
Standard Chartered Bank London (SCB London)	Affiliate
Standard Chartered Bank Tokyo (SCB Tokyo)	Affiliate
Standard Chartered Bank Hong Kong Limited (SCB HK)	Affiliate
Standard Chartered Bank Singapore (SCB Singapore)	Affiliate
Standard Chartered Bank India (SCB India)	Affiliate
Standard Chartered Bank Dubai (SCB Dubai)	Affiliate
AMEX Bank Ltd. Singapore (AEB Singapore)	Affiliate
Standard Chartered Bank China (SCB China)	Affiliate
Standard Chartered Bank Malaysia (SCB Malaysia)	Affiliate
Scope International Private Ltd.	Affiliate
Standard Chartered First Bank Korea LT (SCFB Korea)	Affiliate
Standard Chartered APR Limited (SC APR)	Affiliate
Others	Including directors, supervisors, managers and their families, spouses, etc.
Directors, Supervisors, President and Vice Presidents	The main management of the Bank

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2) Significant transactions with related parties

A. Deposits

As of December 31, 2009 and 2008, deposits provided by related parties were as summarized below:

Name	2009		Interest rate (%)
	Ending balance	Percentage of deposits (%)	
Deposits by individual related parties not over 1% of total deposits	\$ <u>819,560</u>	<u>0.17</u>	0.00~8.00

Name	2008		Interest rate (%)
	Ending balance	Percentage of deposits (%)	
Deposits by individual related parties not over 1% of total deposits	\$ <u>429,567</u>	<u>0.09</u>	0.00~8.00

Except for the up to 8% interest rate on employee savings accounts, the interest rates and other terms offered to the above related parties were the same as the terms offered to the general public. 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% starting March 9, 2009.

For the years ended December 31, 2009 and 2008, interest expenses on the above deposits were \$9,200 and \$10,980, respectively.

B. Loans

As of December 31, 2009 and 2008, loans to related parties were as summarized below:

Type of loan	Number of accounts or name of related party	Maximum during the period	2009				Collateral	Difference between terms and conditions offered to the accounts and to the general public
			Ending balance	Repayment				
				On-schedule	Overdue			
Employee consuming loan	26	9,312	5,425	5,425	-	Unsecured lending	None	
Mortgage	36	124,927	101,277	101,277	-	House	None	
Others	2	6,296	5,392	5,392	-	Overdraft on the comprehensive deposits	None	

Type of loan	Number of accounts or name of related party	Maximum during the period	2008				Collateral	Difference between terms and conditions offered to the accounts and to the general public
			Ending balance	Repayment				
				On-schedule	Overdue			
Employee consuming loan	30	14,076	8,895	8,895	-	Unsecured lending	None	
Mortgage	41	144,220	108,300	108,300	-	House	None	
Others	1	4,155	2,567	2,567	-	Overdraft on the comprehensive deposits	None	

For the years ended December 31, 2009 and 2008, interest income resulting from the above loans was \$2,155 and \$3,244, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

C. Deposits with affiliates

As of and for the years ended December 31, 2009 and 2008, deposits with affiliates and related interest income were as follows:

	Balance	2009 Interest rate	Interest income
SCB New York	\$ 750,427	0.05~0.60	268
SCB HK	192,522	-	-
SCB Tokyo	57,588	0.00~0.74	3
Others	<u>62,415</u>	0.01~1.97	<u>181</u>
	<u>\$ 1,062,952</u>		<u>452</u>
	Balance	2008 Interest rate	Interest income
SCB New York	\$ 9,625,676	0.00~1.35	14,346
SCB HK	603,461	-	-
Others	<u>39,407</u>	-	<u>-</u>
	<u>\$ 10,268,544</u>		<u>14,346</u>

D. Loans and advances to affiliates

As of and for the years ended December 31, 2009 and 2008, loans and advances to affiliates and related interest income were as follows:

	Balance	2009 Interest rate	Interest income
SCFB Korea	\$ 25,593,086	0.27~1.05	35,254
SCB Taipei	24,247,260	0.05~3.30	272,048
SCB New York	5,438,531	0.85~1.70	116,210
SCB London	3,618,555	1.10~5.88	662,142
Others	<u>4,262,423</u>	0.03~4.64	<u>135,574</u>
	<u>\$ 63,159,855</u>		<u>1,221,228</u>
	Balance	2008 Interest rate	Interest income
SCB London	\$ 19,070,161	1.30~5.88	321,966
SCB Taipei	16,698,874	2.00~5.36	211,637
SCB Tokyo	10,692,651	0.50~4.64	51,349
Others	<u>3,223,228</u>	2.80~7.10	<u>310,540</u>
	<u>\$ 49,684,914</u>		<u>895,492</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2009 and 2008, the interest receivable resulting from the above loans and advances to affiliates was \$87,800 and \$324,451, respectively.

E. Deposits by affiliates and loans from affiliates

As of and for the years ended December 31, 2009 and 2008, deposits by and loans from affiliates and related interest expense were as follows:

	Balance	2009 Interest rate	Interest expense
SCB New York	\$ 7,997,839	0.18~0.28	591
SCB Tokyo	6,088,881	0.13~3.60	26,232
SCB HK	3,846,329	0.10~0.35	20,620
SCB Taipei	<u>3,808,592</u>	0.28~1.04	<u>20,658</u>
	<u><u>\$ 21,741,641</u></u>		<u><u>68,101</u></u>
		2008 Interest rate	
	Balance		Interest expense
SCB London	\$ 6,200,683	2.00~3.14	185,373
SCB HK	4,922,968	4.50~4.80	101,882
SCB Taipei	1,541,976	0.96	21,595
SCB Tokyo	1,410,292	0.20	135,932
Others	<u>137,747</u>	4.50~5.35	<u>4,744</u>
	<u><u>\$ 14,213,666</u></u>		<u><u>449,526</u></u>

As of December 31, 2009 and 2008, the interest payable resulting from the above deposits by and loans from affiliates was \$2,638 and \$103,133, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

F. Derivative transactions

As of December 31, 2009 and 2008, derivative transactions engaged in with affiliated parties were as follows:

Name	Contracts	Contract duration period	2009		Balance sheet Account	Balance
			Notional	Unrealized gain (loss) in current period		
SCB London	Forward contract	2010.1.4~2013.4.24	\$ 76,568,818	1,374,422	Financial assets at fair value through profit or loss	1,912,018
					Financial liabilities at fair value through profit or loss	(537,596)
	Cross currency swap	2010.5.20~2012.10.12	47,837,186	716,835	Financial assets at fair value through profit or loss	2,256,986
					Financial liabilities at fair value through profit or loss	(1,540,151)
	Commodity swap	2010.1.8~2010.10.7	19,361,678	(57,444)	Financial assets at fair value through profit or loss	408,233
					Financial liabilities at fair value through profit or loss	(465,677)
	Interest rate derivative	2010.2.2~2013.8.13	25,275,049	(122,573)	Financial assets at fair value through profit or loss	151,992
					Financial liabilities at fair value through profit or loss	(274,565)
	Interest rate swap	2010.1.11~2014.4.9	84,305,356	(3,091,246)	Financial assets at fair value through profit or loss	912,632
					Financial liabilities at fair value through profit or loss	(4,003,878)
Option contract	2010.1.1~2016.10.9	55,429,063	(93,108)	Financial assets at fair value through profit or loss	433,420	
				Financial liabilities at fair value through profit or loss	(526,528)	
SCB Singapore	Forward contract	2010.1.4~2010.9.3	75,763,653	(186,725)	Financial assets at fair value through profit or loss	799,466
					Financial liabilities at fair value through profit or loss	(986,191)
	Interest rate swap	2011.12.19	703,810	14,211	Financial assets at fair value through profit or loss	14,211
SCB New York	Forward contract	2010.1.4~2010.5.24	174,279	(5,083)	Financial assets at fair value through profit or loss	590
					Financial liabilities at fair value through profit or loss	(5,673)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Name	Contracts	Contract duration period	2008		Balance sheet Account	Balance
			Notional	Unrealized gain (loss) in current period		
SCB London	Forward contract	2009.1.2~2009.11.12	\$ 13,639,397	259,994	Financial assets at fair value through profit or loss	453,452
					Financial liabilities at fair value through profit or loss	(193,458)
	Cross currency swap	2009.2.6~2012.9.28	69,202,260	(367,945)	Financial assets at fair value through profit or loss	924,998
					Financial liabilities at fair value through profit or loss	(1,292,943)
	Commodity swap	2009.1.8~2011.1.4	3,799,971	(187,182)	Financial assets at fair value through profit or loss	162,289
					Financial liabilities at fair value through profit or loss	(349,471)
	Interest rate derivative	2009.1.26~2013.4.24	130,397,219	533,815	Financial assets at fair value through profit or loss	4,292,124
					Financial liabilities at fair value through profit or loss	(3,758,309)
	Interest rate swap	2009.2.4~2013.8.13	169,927,560	(3,694,302)	Financial assets at fair value through profit or loss	2,273,189
					Financial liabilities at fair value through profit or loss	(5,967,491)
	Option contract	2009.1.1~2010.10.14	59,742,496	(1,620,839)	Financial assets at fair value through profit or loss	108,489
					Financial liabilities at fair value through profit or loss	(1,729,328)
SCB New York	Forward contract	2009.1.5	12,852	57	Financial assets at fair value through profit or loss	57
SCB India	Interest rate swap	2009.6.8	229,739	2,995	Financial assets at fair value through profit or loss	2,995
AEB Singapore	Cross currency swap	2009.8.19~2009.9.21	1,365,732	(136,107)	Financial liabilities at fair value through profit or loss	(136,107)
SCB Singapore	Forward contract	2009.1.2~2009.9.9	27,567,227	(185,427)	Financial assets at fair value through profit or loss	353,076
					Financial liabilities at fair value through profit or loss	(538,503)

G. As of December 31, 2009 and 2008, the fair values of financial debentures acquired from affiliates were as follows:

Name	Fair value	
	2009	2008
SCB HK	\$ 4,483,269	4,640,061

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- H. As of December 31, 2009 and 2008, financial debenture payable deriving from the issuance of financial debentures to affiliates were as follows:

Name	Bond (note)		2009	2008
SCB	95-1	\$	-	4,800,000
SCB	98-2		4,798,704	-
SC APR	97-1		-	4,922,968
SC APR	98-3		4,798,704	-

Note: The issuance conditions and details of financial debentures are stated in note 4(14).

- I. In December 2004, the Bank sold the land and building located at No. 1-23 and No. 1-49, Dongmen Sec. 2, Hsinchu City, to Standard Chartered Life Insurance Agent. The contracted selling price was \$42,500, and the gain on disposal was \$23,130 after deducting net book value and the related expenses. The Bank transferred the ownership in January 2005. As of December 31, 2009 and 2008, unrealized gains from affiliated-company transactions amounted to \$22,686 and \$22,785, respectively, recorded as other liabilities.
- J. For the years ended December 31, 2009 and 2008, head office administration fees and other expenses arising from professional technical support were \$1,947,231 and \$684,457, respectively. As of December 31, 2009 and 2008, head office administration fees and other expenses arising from professional technical support payable to SCB were \$2,515,939 and \$1,919,127, respectively, recorded under accounts payable—related parties. Moreover, for the years ended December 31, 2009 and 2008, the royalty expenses for obtaining the right to use intellectual property of SC PLC Group amounted to \$75,945 and \$46,283, respectively. As of December 31, 2009 and 2008, the royalty expenses payable to SCB were \$72,243 and \$46,283, respectively, recorded under accounts payable.
- K. For the years ended December 31, 2009 and 2008, the related cost of the Executive Share Option Scheme amounted to \$150,308 and \$63,132, respectively. As of December 31, 2009 and 2008, accounts payable to SCB for the share-based payment scheme costs amounted to \$147,512 and \$172,813, respectively, recorded as accounts payable.
- L. For the years ended December 31, 2009 and 2008, expenses resulting from operating activities with affiliates were as follows:

		2009	2008
Staff costs:			
SCB HK	\$	13,435	19,346
SCB London		9,819	46,911
SCB Singapore		3,249	24,556
SCB New York		2,949	10,557
Others		956	3,649
	\$	<u>30,408</u>	<u>105,019</u>
Information technology service fees:			
SCB New York	\$	38,890	-
Scope International Private Ltd.		36,605	52,595
SCB Singapore		2,597	4,505
SCB London		2,292	17,801
SCB HK		-	5,482
Others		18,573	3,513
	\$	<u>98,957</u>	<u>83,896</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- M. For the year ended December 31, 2008, operating expenses paid in advance for Standard Chartered Life Insurance Agent Co., Ltd. were \$8,662, recorded as accounts receivable. As of December 31, 2009 and 2008, the deposits of Standard Chartered Life Insurance Agent Co., Ltd. were \$340,466 and \$231,848, respectively, and the interest expenses were \$890 and \$1,996, respectively.
- N. For the year ended December 31, 2008, operating expenses paid in advance for Standard Chartered Taiwan Insurance Agent Co., Ltd. were \$2,326, recorded as accounts receivable. As of December 31, 2009 and 2008, the deposits of Standard Chartered Taiwan Insurance Agent Co., Ltd. were \$22,832 and \$33,445, respectively, and the interest expenses were \$57 and \$412, respectively.
- O. SCBTL has signed rental contracts with Standard Chartered Life Insurance Agent Co., Ltd. Rental payment and collection method are consistent with arm's-length transaction terms.
- 3) The salary and remuneration of major management.

The salary and remuneration of the directors, supervisors, president, vice presidents and major management for the years ended December 31, 2009 and 2008, were as below:

	2009	2008
Salary	\$ 64,851	96,015
Rewards, special allowance and remuneration	42,335	16,099

(6) Pledged Assets

Pledged assets	Pledged for	Amount	
		December 31, 2009	December 31, 2008
Bonds (recorded as available-for-sale financial assets as of December 31, 2009 and 2008)	Provisional seizure	\$ 315,000	410,600
	Securitization of mortgage loans	700,000	700,000
Total		<u>\$ 1,015,000</u>	<u>1,110,600</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Refundable security deposits made in accordance with the relevant regulations governing bank operations:

Security deposits	Purpose	Amount	
		December 31, 2009	December 31, 2008
Bonds and negotiable certificates of deposit (recorded as available-for-sale financial assets as of December 31, 2009 and 2008)	Reserve for trust funds	\$ 700,000	2,300,000
	Reserve for indemnity obligations	50,000	50,000
	Security deposits for performance	300,000	-
	Security deposits for bill trading operations	100,000	50,000
	Security deposits for futures trading	35,000	20,000
	Security deposits for security brokerage	150,000	250,000
		<u>1,335,000</u>	<u>2,670,000</u>
Certificates of deposit (recorded as refundable deposits as of December 31, 2009 and 2008)	Clearing account reserve	100,000	110,400
	Security deposits for bond proprietary trading	10,000	10,000
	Security deposits for bond underwriting	-	40,000
		<u>110,000</u>	<u>160,400</u>
Total		<u>\$ 1,445,000</u>	<u>2,830,400</u>

- 1) Reserves for trust funds are provided by deposits that the Bank placed in the Central Bank of China for its trust custodian business.
- 2) Reserves for indemnity obligations are provided by deposits placed in the Central Bank of China for conducting a trust business.
- 3) Security deposits for performance are provided by deposits placed in the Central Deposit Insurance Corporation to perform the contract as agreed.
- 4) Assets pledged for provisional seizure are provided by collateral placed with the court in order to execute the Bank's right over debtors' properties.
- 5) Security deposits for bill trading are provided by deposits placed in the Central Bank of China for the Bank's bill trading business.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- 6) Security deposits for bond proprietary trading are provided by deposits placed in the OTC Securities Exchange for the Bank's government bond trading business. Furthermore, reserve for trading losses has been set to conform to securities regulations.
- 7) The cash deposited in the clearing account reserve was \$40,000 and \$10,400 as of December 31, 2009 and 2008, respectively.
- 8) Security deposits for bond proprietary trading are provided by deposits placed in the OTC Securities Exchange for the Bank's government bond trading business. Furthermore, reserve for trading losses has been set to conform to securities regulations.
- 9) The cash deposited in the clearing account reserve was \$40,000 and \$10,400 as of December 31, 2009 and 2008, respectively.

(7) Commitments and Contingent Liabilities

1) Significant service agreements

The Bank entered into a bancassurance agreement with PCA Life Assurance Co., Ltd. (PCA) to promote and sell approved insurance policies in October 2007. Pursuant to the agreement, during the contract period from October 2007 to September 2015, the Bank should establish a sales team for PCA life insurance products, maintain a customer database, and exclusively sell such life insurance products underwritten by PCA through the distribution networks in Taiwan. In consideration of the exclusive distribution arrangement, PCA had paid to the Bank a facilitation fee of USD 32,000 thousand. The amounts of \$123,122 and \$106,344 were recognized as fee income for the years ended December 31, 2009 and 2008, respectively, and the remaining amount was recorded as deferred revenue under other liabilities.

2) Significant purchase agreements

As of December 31, 2009 and 2008, the Bank had construction agreements for expansion and renovation of buildings amounting to \$342,658 and \$645,747, respectively. The unpaid amount of the aforementioned agreements was \$91,551 and \$114,426, respectively.

3) Operating leases

The Bank has entered into certain operating leases for its branches. As of December 31, 2009, estimated minimum future lease payments were as follows:

Fiscal year	Amount
2010	\$ 422,455
2011	362,747
2012	312,588
2013	294,529
2014 and thereafter	<u>190,172</u>
	<u>\$ 1,582,491</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

4) Others

	December 31, 2009	December 31, 2008
Consignment collection for others	\$ 10,231,201	15,335,087
Traveler's checks held on consignment for sale	146,976	93,975
Securities, consignments and goods in custody	1,447,565,399	549,414,298
Trust assets	<u>141,883,069</u>	<u>142,051,356</u>
	<u>\$ 1,599,826,645</u>	<u>706,894,716</u>
Unused lines of credit	<u>\$ 16,879,061</u>	<u>17,476,852</u>
Other guarantees	<u>\$ 8,590,738</u>	<u>11,020,475</u>
Letters of credit issued	<u>\$ 2,788,530</u>	<u>2,185,399</u>
Securities sold under repurchase agreements	<u>\$ -</u>	<u>1,499,177</u>

- 5) As of and for the years ended December 31, 2009 and 2008, 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, 2009

Trust assets		Trust liabilities	
Bank deposit	\$ 21,183	Accounts payable	\$ 17
Short-term investments	135,464,613	Taxes payable	9
Other marketable securities	72,878	Payable for securities under	6,324,309
Accounts receivable	86	custody	
Securities under custody	<u>6,324,309</u>	Trust capital	<u>135,558,734</u>
Total trust assets	<u>\$ 141,883,069</u>	Total trust liabilities	<u>\$ 141,883,069</u>

Trust Balance Sheet

December 31, 2008

Trust assets		Trust liabilities	
Bank deposits	\$ 41,157	Accounts payable	\$ 21
Short-term investments	136,367,411	Taxes payable	13
Accounts receivable	131	Payable for securities under	5,642,657
		custody	
Securities under custody	<u>5,642,657</u>	Trust capital	<u>136,408,665</u>
Total trust assets	<u>\$ 142,051,356</u>	Total trust liabilities	<u>\$ 142,051,356</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Trust Income Statements

	2009	2008
Trust revenue:		
Interest revenue	\$ 341	288
Common stock cash dividends	27,143	23,907
Realized gain on investments	327	275
Unrealized gain on investments	348,812	-
Exchange gain	-	267
	<u>376,623</u>	<u>24,737</u>
Trust expenses:		
Management expenses	216	318
Service charges	194	124
Realized loss on investments	10	7,840
Unrealized loss on investments	-	275,815
Loss on trading of assets	183	-
	<u>603</u>	<u>284,097</u>
Net income (loss) before income tax	376,020	(259,360)
Income tax expense	475	9
Net income (loss) after income tax	<u>\$ 375,545</u>	<u>(259,369)</u>

Schedules of investment for trust business

Investment items	December 31, 2009	December 31, 2008
Bank deposits	\$ 21,183	41,157
Short-term investments:		
Bonds	20,433,019	51,836,127
Common stock	3,547,306	2,931,874
Funds	111,484,288	81,599,410
Other securities	72,878	-
Accounts receivable	86	131
Securities under custody	<u>6,324,309</u>	<u>5,642,657</u>
	<u>\$ 141,883,069</u>	<u>142,051,356</u>

Foreign currency pecuniary trust business engaged in by the Offshore Banking Unit (OBU) as of December 31, 2009 and 2008, was included in the trust balance sheets and schedules of investment for trust business.

(8) **Significant Disaster Loss: none.**

(9) **Subsequent Events: none.**

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(10) Others

1) Summary of staff costs and depreciation and amortization expenses

A summary of staff costs and depreciation and amortization expenses for the years ended December 31, 2009 and 2008, is as follows:

Account	Function	2009			2008		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Staff costs:							
Salaries		-	4,649,788	4,649,788	-	4,993,823	4,993,823
Labor and health insurance		-	290,903	290,903	-	306,489	306,489
Pension		-	664,906	664,906	-	455,145	455,145
Other		-	487,250	487,250	-	299,870	299,870
Depreciation		-	551,958	551,958	-	680,810	680,810
Amortization		-	94,330	94,330	-	90,040	90,040

2) Reclassification

For the year ended December 31, 2008, certain amounts have been reclassified and presented to conform to the financial statements for the year ended December 31, 2009. The financial statements are not significantly affected by such reclassifications.

3) Details of the Bank's amalgamation with American Express Bank, Taipei Branch were as follows

Standard Chartered Bank acquired 100% of the outstanding common shares of American Express Bank Limited in February 2008. In conformity with Jin-Kuan-Yin No. 09740003110, the assets, liabilities, and operations of American Express Bank, Taipei Branch (AEB) were transferred to the Bank on August 1, 2008. The Bank paid cash consideration to complete the transaction. After the completion of the amalgamation, the Bank and AEB expect that the combined company's profitability and operating revenue will be improved through complementary services, integration of resources, and innovative products. The aforementioned advantages gained from the business combination will have a positive impact on the Bank's book value per share and earnings per share.

4) Net cash equivalents provided by assumption of business from American Express Bank, Taipei branch on August 1, 2008, were as listed below:

	August 1, 2008
Assets	\$ (4,180,126)
Liabilities	<u>3,731,654</u>
Net cash outflow provided by the assumption of business	<u><u>\$ (448,472)</u></u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

5) Details of the Bank's amalgamation with Asia Trust Investment Co., Ltd. were as follows:

A. Brief introduction for transferee:

Asia Trust Investment Co., Ltd. (ATIC) was established in June 1972. The key businesses included trust, investment and loans. Due to significant losses, the stockholders' equity of ATIC became negative, and on January 31, 2008, the Taiwan Government's Central Deposit Insurance Corporation (CDIC) took over ATIC.

B. Purpose of the transfer of assets and liabilities, and regulatory basis:

- a. Purpose: Through additional branches, the Bank can successfully expand its scale.
- b. Regulatory basis: In accordance with the Article No. 58 of the Banking Act and Articles 5, 16 and 18 of the Financial Institutions Merger Act.

C. Effective date of the transfer: December 27, 2008.

D. Type, quantity, and amount of marketable securities issued for the transfer: None.

E. Accounting treatment for assets acquired and liabilities assumed:

- a. The Bank assumed ATIC's operation and a specific portion of assets/liabilities. The difference between the fair values of the specific portion of assets/liabilities and the payment from the Resolution Trust Corporation (RTC) and the Taiwan Government's Central Deposit Insurance Corporation (CDIC) was recognized as goodwill.
- b. Relevant accounts and amounts of assets and liabilities assumed through the transfer:

	Amount
Assumption of assets (including cash and cash equivalents of \$1,616,994)	\$ 9,046,528
Assumption of liabilities	<u>15,774,867</u>
Net assumption of liabilities	(6,728,339)
Add: amount received from the RTC	<u>3,572,291</u>
	<u>\$ (3,156,048)</u>

The Bank received payments of \$224,291 and \$3,348,000 from CDIC and RTC in 2009 and 2008, respectively.

F. Pro forma financial information on operating performance was as below:

	2008
Net interest income	\$ 9,790,203
Net non-interest income	8,379,435
Bad debt and operating expenses	<u>(19,499,329)</u>
Loss before tax	<u>\$ (1,329,691)</u>
Net loss	<u>\$ (997,268)</u>
EPS – after tax (unit: New Taiwan dollar)	<u>\$ (0.46)</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

6) Disclosures in accordance with SFAS No. 28 are as follows:

A. Major foreign currency positions

December 31, 2009			December 31, 2008			
Currency	Original currency	NTD equivalent	Currency	Original currency	NTD equivalent	
USD	\$	52,459	1,678,238	USD	225,059	7,386,389
RMB		1,604	7,517	JPY	(187,179)	(68,062)
AUD		3,462	99,587	GBP	(844)	(40,075)
NZD		1,438	33,438	AUD	1,709	38,904
JPY		(680,066)	(235,526)	EUR	(746)	(34,522)

B. Profitability

Items		Unit: %	
		2009	2008
Return on assets (note 1)	Before income tax	(0.78)	(0.17)
	After income tax	(0.74)	0.01
Return on net equity (note 2)	Before income tax	(14.64)	(3.44)
	After income tax	(14.00)	0.06
Net profit ratio (note 3)		(26.85)	0.10

Note 1: Return on assets = net gain (loss) before / after tax ÷ average assets

Note 2: Return on net equity = net gain (loss) before / after tax ÷ average net equity

Note 3: Net profit ratio = net gain (loss) after tax ÷ operating income

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

7) Capital adequacy

Capital adequacy ratios of the Bank are disclosed below:

Item		Period-end	December 31, 2009	December 31, 2008
Self-owned capital	Tier 1 Capital		26,239,195	21,350,545
	Tier 2 Capital		26,239,195	19,380,984
	Tier 3 Capital		-	-
	Capital		52,478,390	40,731,529
Risk- weighted assets	Credit risk	Standardized approach	314,873,303	331,477,325
		Internal-rating-based approach	-	-
		Secularizations	-	-
	Operational risk	Basic indicator approach	34,866,993	35,774,925
		Standardized approach / alternative approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	31,688,991	37,278,206
		Internal model approach	-	-
Risk-weighted assets			381,429,287	404,530,456
Capital adequacy ratio			13.76 %	10.07 %
Tier 1 capital / risk-weighted assets			6.88 %	5.28 %
Tier 2 capital / risk-weighted assets			6.88 %	4.79 %
Tier 3 capital / risk-weighted assets			- %	- %
Common stock / total assets			4.72 %	3.91 %
Leverage ratio			4.25 %	3.88 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Capital adequacy ratios of the Bank and its subsidiaries are disclosed below:

Item		Period-end	December 31, 2009	December 31, 2008
Self-owned capital	Tier 1 Capital		26,423,446	21,487,379
	Tier 2 Capital		26,423,446	19,517,818
	Tier 3 Capital		-	-
	Capital		52,846,892	41,005,197
Risk- weighted assets	Credit risk	Standardized approach	314,952,176	331,728,749
		Internal-rating-based approach	-	-
		Secularizations	-	-
	Operational risk	Basic indicator approach	35,035,413	35,790,853
		Standardized approach / alternative approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	31,688,991	37,278,206
		Internal model approach	-	-
Risk-weighted assets		381,676,580	404,797,807	
Capital adequacy ratio			13.85 %	10.13 %
Tier 1 capital / risk-weighted assets			6.92 %	5.31 %
Tier 2 capital / risk-weighted assets			6.92 %	4.82 %
Tier 3 capital / risk-weighted assets			- %	- %
Common stock / total assets			4.72 %	3.91 %
Leverage ratio			4.29 %	3.91 %

(11) Other Disclosure Items

1) Related information on material transaction items:

- A. Information regarding long-term equity investment 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 receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: none.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

F. Information regarding selling non-performing loans:

a. Summary for sale of non-performing loans

Transaction date	Counterparty	Content	Book value	Price	Gain from sale	Attachment clause	Relationship
09/28/2009	China Growth One Asset Management Company	Corporate finance	-	21,173	21,173	None	Non-related party
08/20/2009	China Growth One Asset Management Company	Corporate finance	188,842	188,842	-	None	Non-related party
08/20/2009	China Growth One Asset Management Company	Corporate finance	-	16,379	16,379	None	Non-related party
08/20/2009	Taiwan Asset Management Company	Corporate finance	129,905	129,905	-	None	Non-related party
08/20/2009	Taiwan Asset Management Company	Corporate finance	1,440,085	1,463,326	23,241	None	Non-related party
08/20/2009	Mega Asset Management Corporation	Corporate finance	-	46,005	46,005	None	Non-related party
08/20/2009	Peng Sheng Yuan	Corporate finance	-	4,045	4,045	None	Non-related party
08/20/2009	Orix Taiwan Corporation	Mortgage loan	298,072	530,065	231,993	Repurchase agreement	Non-related party
08/20/2009	Sun, Yong Ji	Mortgage loan	1,440	1,440	-	Repurchase agreement	Non-related party
08/28/2009	Huang, Yu Ren	Mortgage loan	-	14,525	14,525	Repurchase agreement	Non-related party
10/19/2009	Juang, Shu Jen	Mortgage loan	2,466	2,466	-	Repurchase agreement	Non-related party
10/19/2009	Liu, Tang Rong	Mortgage loan	1,526	1,526	-	Repurchase agreement	Non-related party
10/19/2009	Wu, Hong Tai	Mortgage loan	1,813	1,813	-	Repurchase agreement	Non-related party
10/19/2009	Jia Mai Le Investment Management Consulting Co., Ltd.	Mortgage loan	-	2,740	2,740	Repurchase agreement	Non-related party
10/19/2009	Liu, Tang Rong	Mortgage loan	-	1,206	1,206	Repurchase agreement	Non-related party
10/19/2009	Hua Bang Investment Management Co., Ltd.	Mortgage loan	2,001	2,001	-	Repurchase agreement	Non-related party
10/19/2009	Chang Yu Asset Management Co., Ltd.	Mortgage loan	3,745	3,745	-	Repurchase agreement	Non-related party

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- b. Information on individual NPL sales transactions of more than \$1 billion (exclusive of sales to related parties)

Counterparty: Taiwan Asset Management Company

Disposal date: 09/28/2009

Content of NPL		Amount	Book value	Price allocation	
Corporate finance	Secured	3,057,940	723,405	723,524	
	Non-secured	1,531,053	682,570	697,780	
Consumer finance	Secured	Mortgage loan	-	-	
		Car loan	-	-	
		Others	110,705	26,694	33,900
	Non-secured	Credit Card	-	-	-
		Cash card	-	-	-
		Small personal loan	-	-	-
	Others	52,847	7,416	8,122	
Total		4,752,545	1,440,085	1,463,326	

- 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. 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:

A. Information on investees' name, location, etc.:

Name of investee	Investee's location	Investee's operation	Percentage of ownership	Book value of investments	Gain (loss) recognized during the period	Holdings				Remark
						Number of shares	Pro forma number of shares	Total		
								Shares	Percentage	
Standard Chartered Life Insurance Agent Co., Ltd.	No. 85, Chung-Zeng Road, Hsinchu, Taiwan	Life insurance agent	100.00 %	343,738	280,253	300	-	300	100.00 %	-
Standard Chartered Taiwan Insurance Agent Co., Ltd.	No. 85, Chung-Zeng Road, Hsinchu, Taiwan	Property insurance agent	100.00 %	24,764	16,987	300	-	300	100.00 %	-
Paradigm Assets Management Co., Ltd.	19F., No. 123, Sec. 2, Chung-Hsiao East Road, Taipei, Taiwan	Securities investment trust	20.00 %	-	-	6,030	-	6,030	20.00 %	-
Fubon Securities Co., Ltd.	6F., No.258, Sec. 4, Ren-ai Rd., Da-an District, Taipei City 10687, Taiwan	Financial securities services	0.99 %	38,065	-	3,943	-	3,943	0.99 %	-
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 %	-

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Name of investee	Investee's location	Investee's operation	Percentage of ownership	Book value of investments	Gain (loss) recognized during the period	Holdings				Remark
						Number of shares	Pro forma number of shares	Total		
								Shares	Percentage	
Financial Information Service Co., Ltd.	No.81, Sec. 3, Kangning Rd., Neihu District, Taipei City 11485, Taiwan	Information technology services	1.14 %	45,500	-	4,550	-	4,550	1.14 %	-
Taipei Forex Inc.	8F., No.400, Sec. 2, Bade Rd., Songshan District, Taipei City 10556, Taiwan	Foreign exchange and foreign currency lending services	3.18 %	6,673	-	630	-	630	3.18 %	-
TSC Bio Venture Management, Inc.	11F.-1, No.176, Sec. 1, Keelung Rd., Sinyi District, Taipei City 11070, Taiwan	Venture capital services	5.00 %	20,250	-	2,025	-	2,025	5.00 %	-
Liyu Venture Investment, Inc.	8F., No.70, Sec. 3, Nanjing E. Rd., Jhongshan District, Taipei City 10489, Taiwan	Venture capital services	4.76 %	10,080	-	1,008	-	1,008	4.76 %	-
Windance Co., Ltd.	No.243-1, Jhongyang Rd., North District, Hsinchu City 30041, Taiwan	Residential and commercial lease/sale services	2.73 %	-	-	18,850	-	18,850	2.73 %	-
Taiwan Asset Service Corporation	6F., No.99, Sec. 2, Ren-ai Rd., Jhongjheng District, Taipei City 10062, Taiwan	Asset auction notarization	2.94 %	50,000	-	5,000	-	5,000	2.94 %	-
Yang Guang Asset Management Company	15F., No.218, Sec. 2, Dunhua S. Rd., Da-an District, Taipei City 10669, Taiwan	NPL acquisition services	1.42 %	849	-	85	-	85	1.42 %	-
Taiwanpay Corporation (formerly Wan Chi Co., Ltd.)	9F., No.333, Fushing N. Rd., Songshan District, Taipei City 10544, Taiwan	Information technology services	3.35 %	2,468	-	197	-	197	3.35 %	-
Taiwan Depository and Clearing Corporation	11F., No.363, Fushing N. Rd., Songshan District, Taipei City 10542, Taiwan	Securities custodian	0.17 %	9,277	-	495	-	495	0.17 %	-
Taiwan Cooperative Bills Finance Corporation	14F., No. 85, Sec. 2, Nan Jing Dong Rd., Zhongshan District, Taipei City, Taiwan	Financial securities services	5.24 %	80,077	-	13,346	-	13,346	5.24 %	-

B. Lending to other parties: none.

C. Guarantees and endorsements for other parties: none.

D. Information regarding securities held as of December 31, 2009: none.

(Continued)

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

- E. 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.
- F. 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.
- G. 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.
- H. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: none.
- I. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: none.
- J. Information regarding trading in derivative financial instruments: none.
- K. Information regarding selling non-performing loans: none.
- L. Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: none.
- M. Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: none.

(12) Business Segment Financial Information

1) Divisional financial information

The Bank engages in the financial sector, specializing in the accepting deposits and lending businesses. The Bank has established a trust department; however the revenue generated by this department does not represent 10% or more of the Bank's total revenue. Therefore, no financial information is required to be disclosed.

2) Geographical financial information

The Bank established the Offshore Banking Unit (OBU) in January 1995, and no other foreign operating unit has been set up. Therefore, no geographical financial information is required to be disclosed.

3) Foreign exchange information

The foreign exchange revenue generated by the Bank's domestic and offshore banking units from foreign customers does not represent 10% or more of the Bank's total revenue.

4) Important customer information

The Bank does not have customers who individually represents 10% or more of the Bank's total revenue.