

**STANDARD CHARTERED BANK (TAIWAN) LIMITED**

**Financial Statements**

**June 30, 2010 and 2009**

**(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 June 30, 2010 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the six months periods ended June 30, 2010 and 2009. 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 June 30, 2010 and 2009, and the results of its operations and its cash flows for the six months periods 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 six months periods ended June 30, 2010 and 2009, on which we have expressed an unqualified audit opinion.

KPMG  
August 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**  
**June 30, 2010 and 2009**  
(Expressed in thousands of New Taiwan dollars, except for par value)

	2010	2009	Change %		2010	2009	Change %
<b>Assets</b>				<b>Liabilities and Stockholders' Equity</b>			
Cash and cash equivalents (notes 4(1) and 5)	\$ 7,548,293	5,179,675	46	Deposits by Central Bank and other banks (note 5)	\$ 31,966,531	39,048,415	(18)
Balance at Central Bank and loans and advances to banks (notes 4(2) and 5)	103,703,592	134,104,140	(23)	Financial liabilities at fair value through profit or loss (notes 4(3) and (21) and 5)	16,858,836	25,082,235	(33)
Financial assets at fair value through profit or loss (notes 4(3) and (21) and 5)	30,456,162	29,264,048	4	Bills and bonds sold under repurchase agreements (notes 4(12) and 3)	-	983,541	(100)
Accounts receivables, net (notes 4(4), (6) and (19) and 5)	32,355,130	22,003,755	47	Notes and accounts payables (notes 4(18), 5 and 7 (2))	7,837,212	12,595,349	(38)
Assets held for sale (note 4(5))	-	1,614,609	(100)	Accounts payables—related parties (note 5)	1,175,936	1,003,579	17
Loans and advances to customers, net (notes 4(6) and (21), 5 and 11)	326,460,767	306,364,358	7	Deposits and remittances (notes 4(13) and 5)	521,564,961	487,651,718	7
Available-for-sale financial assets (notes 4(7) and (21), 5 and 6)	121,759,092	98,950,667	23	Financial debentures (notes 4(14) and 5)	19,780,538	19,722,769	-
Investment in associates under equity method, net (note 4(8))	14,076	223,813	(94)	Other financial liabilities (note 4(21))	167,556	304,477	(45)
Other financial assets, net (notes 4(8) and (21) and 11)	518,306	356,809	45	Other liabilities (notes 4(17), 5 and 7)	<u>3,291,638</u>	<u>3,363,199</u>	(2)
Property and equipment, net (note 4(9))	7,508,148	7,806,536	(4)	<b>Total liabilities</b>	<u>602,643,208</u>	<u>589,755,282</u>	2
Intangible assets (notes 4(10) and 10(3))	3,488,201	3,637,040	(4)	<b>Stockholders' Equity (notes 4(7) and (20)):</b>			
Other assets (notes 4(11) and (19) and 6)	5,547,840	6,954,625	(20)	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 June 30, 2010 and 2009, respectively	<u>29,105,720</u>	<u>24,855,720</u>	17
				Capital surplus	<u>5,786,031</u>	<u>6,183,410</u>	(6)
				Retained earnings:			
				Legal reserve	-	5,374	-
				Accumulated (deficits) earnings	<u>1,356,257</u>	<u>(4,626,582)</u>	129
					<u>1,356,257</u>	<u>(4,621,208)</u>	129
				Other adjustments to stockholders' equity:			
				Unrealized revaluation increments on property and equipment	363,949	381,303	(5)
				Unrealized gain on available-for-sale financial assets	350,187	97,684	258
				Unrealized gain on cash flow hedge	53,517	-	-
				Net loss on unrecognized pension cost	<u>(299,262)</u>	<u>(192,116)</u>	(56)
					<u>468,391</u>	<u>286,871</u>	63
				<b>Total stockholders' equity</b>	36,716,399	26,704,793	37
				<b>Commitments and contingent liabilities (notes 4(11), (12), and (21), 6 and 7)</b>			
<b>Total Assets</b>	<u>\$ 639,359,607</u>	<u>616,460,075</u>	4	<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 639,359,607</u>	<u>616,460,075</u>	4

See accompanying notes to the financial statements.

**Standard Chartered Bank (Taiwan) Limited**

**Statements of Income**

**For the six months periods ended June 30, 2010 and 2009**  
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2010	2009	Change %
<b>Interest income (notes 4(3) and (15) and 5)</b>	\$ 5,791,254	7,453,621	(22)
<b>Less: Interest expenses (note 5)</b>	<u>1,309,637</u>	<u>3,114,375</u>	(58)
<b>Net interest income</b>	4,481,617	4,339,246	3
<b>Other operating income:</b>			
Fees and commission income, net (note 7(1))	2,319,486	1,324,581	75
Gain on financial instruments at fair value through profit or loss (notes 4(3) and (21) and 5)	873,146	800,255	9
Realized gain on available-for-sale financial assets (note 4(7))	31,150	77,348	(60)
Investment income from interest in associates under equity method (note 4(8))	24,003	152,550	(84)
Foreign exchange gain, net	77,391	352,557	(78)
Recovery from written-off loans (note 4(6))	830,892	849,017	(2)
Other non-interest income, net (notes 4(8), (11), and (16) and 11)	<u>286,657</u>	<u>159,144</u>	80
<b>Operating income</b>	<u>8,924,342</u>	<u>8,054,698</u>	11
<b>Bad debt expenses:</b>			
Provision for accounts receivables, loans and advances to customers, and guarantee (note 4(6))	790,241	2,358,417	(66)
PEM receivable (notes 4(4) and (6) and 9)	<u>-</u>	<u>5,706,645</u>	-
	<u>790,241</u>	<u>8,065,062</u>	(90)
<b>Operating expenses:</b>			
Staff costs (notes 4(17) and (18), 5 and 10(1))	2,886,965	2,827,391	2
Depreciation and amortization expenses (notes 4(10) and 10(1))	319,247	302,685	5
General and administrative expenses (notes 5 and 7)	<u>2,106,933</u>	<u>1,694,545</u>	24
	<u>5,313,145</u>	<u>4,824,621</u>	10
<b>Profit (loss) from continuing operations before income tax</b>	2,820,956	(4,834,985)	158
<b>Income tax expense (benefit) (note 4(19))</b>	<u>1,464,699</u>	<u>(195,862)</u>	848
<b>Net income (loss)</b>	<u>\$ 1,356,257</u>	<u>(4,639,123)</u>	129
	<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>
	<b>After tax</b>		<b>After tax</b>
<b>Basic (deficits) earnings per share (note 4(20))</b>	<u>\$ 0.97</u>	<u>0.47</u>	<u>(1.95)</u>
		<u>(1.87)</u>	

See accompanying notes to the financial statements.

**Standard Chartered Bank (Taiwan) Limited**  
**Statements of Changes in Stockholders' Equity**

**For the six months periods ended June 30, 2010 and 2009**  
(expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Legal reserve	Accumulated earnings (deficits)	Net loss on unrecognized pension cost	Other adjustments Unrealized (loss) gain on available-for- sale financial assets	Unrealized revaluation increments on property and equipment	Unrealized gain on cash flow hedge	Total
<b>Balance as of January 1, 2009</b>	\$ 24,855,720	6,183,410	-	17,915	(192,116)	352,768	381,303	-	31,599,000
Net loss for the six months period ended June 30, 2009	-	-	-	(4,639,123)	-	-	-	-	(4,639,123)
Legal reserve (note 4(20))	-	-	5,374	(5,374)	-	-	-	-	-
Movement of unrealized loss on available-for-sale financial assets (note 4(7))	-	-	-	-	-	(255,084)	-	-	(255,084)
<b>Balance as of June 30, 2009</b>	<u>\$ 24,855,720</u>	<u>6,183,410</u>	<u>5,374</u>	<u>(4,626,582)</u>	<u>(192,116)</u>	<u>97,684</u>	<u>381,303</u>	<u>-</u>	<u>26,704,793</u>
<b>Balance as of January 1, 2010</b>	\$ 29,105,720	10,430,441	5,374	(4,649,784)	(295,390)	28,128	381,303	3,253	35,009,045
Capital surplus for offsetting against accumulated deficits (note 4(20))	-	(4,644,410)	-	4,644,410	-	-	-	-	-
Legal reserve for offsetting against accumulated deficits (note 4(20))	-	-	(5,374)	5,374	-	-	-	-	-
Net gain for the six months period ended June 30, 2010	-	-	-	1,356,257	-	-	-	-	1,356,257
Movement of unrealized revaluation increments on property and equipment	-	-	-	-	-	-	(17,354)	-	(17,354)
Movement of unrealized gain on available-for-sale financial assets (note 4(7))	-	-	-	-	-	322,059	-	-	322,059
Unrealized gain on cash flow hedge (notes 4(6) and (21))	-	-	-	-	-	-	-	50,264	50,264
Movement on unrecognized pension cost	-	-	-	-	(3,872)	-	-	-	(3,872)
<b>Balance as of June 30, 2010</b>	<u>\$ 29,105,720</u>	<u>5,786,031</u>	<u>-</u>	<u>1,356,257</u>	<u>(299,262)</u>	<u>350,187</u>	<u>363,949</u>	<u>53,517</u>	<u>36,716,399</u>

See accompanying notes to the financial statements.

**Standard Chartered Bank (Taiwan) Limited**

**Statements of Cash Flows**

**For the six months periods ended June 30, 2010 and 2009**  
(expressed in thousands of New Taiwan dollars)

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,356,257	(4,639,123)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expenses	276,231	256,018
Amortization expenses	43,016	46,667
Bad debt expenses—accounts receivables, loans and advances to customers, and guarantee	790,241	2,358,417
Bad debt expenses—compensation receivable	-	5,706,645
Reserves	6,390	21,257
Investment loss (income) from interest in associates under equity method	56,216	(152,550)
Cash dividends from interest in associates under equity method	298,210	202,404
Loss on disposal and obsolescence of fixed assets	17,593	15,319
Derecognition of fixed assets as expenses	1,926	-
Loss on disposal of intangible assets	31	377
Gain on disposal and obsolescence of idle assets	(7,010)	-
Gain on disposal of other assets	(47,164)	-
Gain on disposal of assets held for sale	-	(8,838)
Realized gain on available-for-sale financial assets	(31,150)	(77,348)
Gain on disposal of investments in associates under equity method	(80,219)	-
Gain on disposal of non-performing loans	(70,342)	-
Gain on disposal of collaterals	(107,875)	-
Deferred income tax expense (benefit)	1,089,694	(293,745)
Realized deferred revenue	(61,561)	(61,561)
Decrease in unrealized gain on inter-affiliate transactions	(1)	(49)
(Increase) decrease in operating assets:		
Decrease in bills and bonds purchased under reverse repurchase agreements	-	1,179,467
(Increase) decrease in financial assets at fair value through profit and loss	(1,941,284)	10,031,461
Increase in accounts receivables	(5,092,802)	(192,521)
Decrease in other financial assets	50,848	47,060
Decrease in other assets	271,926	913,594
Increase (decrease) operating liabilities:		
Increase in bills and bonds sold under repurchase agreements	-	570,688
Increase (decrease) in accounts payables	1,428,698	(194,282)
Decrease in financial liabilities at fair value through profit or loss	(3,102,474)	(5,752,360)
Decrease in accounts payables—related parties	(1,401,939)	(915,548)
Decrease in other financial liabilities	(163,509)	(319,890)
Increase (decrease) in other liabilities	251,532	(66,178)
<b>Net cash provided by operating activities</b>	<u>(6,168,521)</u>	<u>8,675,381</u>
<b>Cash flows from investing activities:</b>		
Acquisition of available-for-sale financial assets	(258,355,399)	(140,076,404)
Proceeds from disposal of available-for-sale financial assets	245,228,222	162,477,285
Proceeds from disposal of investments in associates under equity method	80,219	-
Proceeds from disposal of assets held for sale	-	185,500
Acquisition of property and equipment	(212,692)	(95,521)
Proceeds from disposal of property and equipment	-	220
Proceeds from disposal of leased and idle assets	1,018,579	-
Acquisition of intangible assets	(10,080)	(2,410)
Proceeds from disposal of collaterals	107,875	-
Pricing adjustment due to purchase of ATIC	-	223,603
Decrease (increase) in balance at Central Bank and loans and advances to banks	10,051,748	(35,295,494)
(Increase) decrease in loans and advances to customers	(14,164,067)	1,796,813
Proceeds from disposal of non-performing loans	70,342	-
<b>Net cash used in investing activities</b>	<u>(16,185,253)</u>	<u>(10,786,408)</u>
<b>Cash flows from financing activities:</b>		
Repayment of financial debentures	(9,887,393)	(3,100)
(Decrease) increase in deposits by Central Bank and other banks	(17,389,065)	18,010,413
Increase (decrease) in deposits and remittances	51,369,566	(26,387,552)
<b>Net cash provided by (used in) financing activities</b>	<u>24,093,108</u>	<u>(8,380,239)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	1,739,334	(10,491,266)
<b>Cash and cash equivalents at beginning of period</b>	<u>5,808,959</u>	<u>15,670,941</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 7,548,293</u>	<u>\$ 5,179,675</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash payments of interest excluding capitalized interest	<u>\$ 1,329,886</u>	<u>3,745,960</u>
Cash payments of income tax	<u>\$ 89,525</u>	<u>174,947</u>
<b>Investing and financing activities not affecting cash flows:</b>		
Unrealized gain (loss) on available-for-sale financial assets	<u>\$ 322,059</u>	<u>(255,084)</u>

See accompanying notes to the financial statements.

# STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

June 30, 2010 and 2009

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

### (1) Organization

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

Pursuant to an approval granted by the Securities and Futures Commission ("SFC"), which subsequently changed its name to the Securities and Futures Bureau ("SFB") on July 1, 2004, the Bank's shares were authorized to be publicly 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.

As of June 30, 2010 and 2009, the numbers of the Bank's employees were 3,990 and 4,208, 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.

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**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 judgment in the process of applying the Bank's accounting policies. Actual realized results could differ from these assumptions and 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 are denominated in original foreign currencies and translated into New Taiwan dollars at the daily closing exchange rates. At the balance sheet date, the financial 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 deposit 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.

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

## 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".

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 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 is estimated by using the best information available in the circumstances or an appropriate 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:

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

- 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 the 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.
- b) Financial assets classified as assets at fair value through profit and loss upon initial recognition which do not meet the preceding criterion may be reclassified out of the fair value through profit and 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 and 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 and loss over the remaining expected 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 and loss or loans and receivables.

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 is estimated using the best information available in the circumstances or an appropriate 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 an 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.

(Continued)

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

## 7) Derecognition of financial assets and liabilities

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 in the 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 and willing parties. The best evidence of fair value is the quoted prices in an active market. If a quoted market price is not available, fair value is estimated by using the best information available in the circumstances or an appropriate 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 is separated from the host contract and accounted for as a derivative. If an embedded derivative is separated, the host contract is 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**

Changes in the fair value of hedging instrument designated as a cash flow hedge relating to the hedged risk 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:

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**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 or 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.

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**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 out of profits 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 on acquisition. Interest expense incurred directly attributable to bringing an asset to the condition necessary for it to be capable of operating should be capitalized. Major additions, improvements, and renewals are treated as capital expenditure and capitalized, while maintenance and repair costs are expensed when incurred.

The Bank 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 period. 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 are 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 ROC 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.

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**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 is 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 ROC 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 thousand, 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 retrospectively. If these changes occur after the balance sheet date but before the issuance date of the financial statements, such EPS calculations are also adjusted retrospectively. When calculating diluted EPS, the net income (or loss) attributable to common shareholders and the weighted-average number of shares outstanding shall be adjusted for the effects of all dilutive potential common shares.

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## (3) Changes in Accounting Principle: none.

## (4) Disclosures of Significant Accounts

## 1) Cash and cash equivalents

As of June 30, 2010 and 2009, cash and cash equivalents were as follows:

	2010	2009
Cash in transit	\$ 4,373,718	4,236,207
Deposits with other banks	1,058,397	566,492
Deposits with affiliates	<u>2,116,178</u>	<u>376,976</u>
	<u>\$ 7,548,293</u>	<u>5,179,675</u>

## 2) Balances at Central Bank, and loans and advances to banks

As of June 30, 2010 and 2009, the balances at the Central Bank and loans and advances to banks were as follows:

	2010	2009
Balances at Central Bank:		
Reserve for deposits – checking account	\$ 9,699,945	7,254,132
Reserve for deposits – demand account	14,822,640	13,449,786
Reserve for deposits – foreign currency	112,962	111,555
Reserve for deposits – settlement accounts	<u>574,905</u>	<u>594,162</u>
	<u>25,210,452</u>	<u>21,409,635</u>
Loans and advances to other banks	30,896,272	33,817,202
Loans and advances to affiliates	<u>47,596,868</u>	<u>78,877,303</u>
	<u>78,493,140</u>	<u>112,694,505</u>
	<u>\$ 103,703,592</u>	<u>134,104,140</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.

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## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

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

As of June 30, 2010 and 2009, financial assets and liabilities at fair value through profit and loss were as follows:

	<b>2010</b>	<b>2009</b>
Trading financial assets:		
Debt instruments	\$ 10,457,782	3,336,767
Derivatives	<u>19,998,380</u>	<u>25,927,281</u>
	<u><b>\$ 30,456,162</b></u>	<u><b>29,264,048</b></u>
Trading financial liabilities:		
Debt instruments	\$ -	1,459,537
Derivatives	<u>16,858,836</u>	<u>23,622,698</u>
	<u><b>\$ 16,858,836</b></u>	<u><b>25,082,235</b></u>

For the six months periods ended June 30, 2010 and 2009, net gain (loss) on financial assets and liabilities at fair value through profit or loss recognized by the Bank were as follows:

	<b>2010</b>	<b>2009</b>
Net gain on both valuation and disposal of trading financial assets and liabilities:		
Debt instruments	\$ 64,427	40,280
Derivatives	<u>808,719</u>	<u>759,975</u>
	<u><b>\$ 873,146</b></u>	<u><b>800,255</b></u>
Interest income	<u><b>\$ 138,085</b></u>	<u><b>138,899</b></u>

## 4) Accounts receivables

As of June 30, 2010 and 2009, details of accounts receivables were as follows:

	<b>2010</b>	<b>2009</b>
Accounts receivables	\$ 2,328,969	4,204,365
Acceptance receivables	770,950	227,213
Factoring loan receivable, without recourse	19,187,335	6,246,763
Interest receivables	1,347,414	1,937,301
Credit card receivables	6,392,097	8,212,203
Compensation receivable	6,197,797	6,320,234
Tax refund receivables	248,043	250,563
Others	<u>1,455,897</u>	<u>391,049</u>
	37,928,502	27,789,691
Less: allowance for doubtful accounts — accounts receivables	70,404	79,291
allowance for doubtful accounts — compensation receivable	5,502,968	5,706,645
Total	<u><b>\$ 32,355,130</b></u>	<u><b>22,003,755</b></u>

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**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 idle assets, building and land on May 29, 2008, and the sales transaction was expected to be completed within a year. As of June 30, 2009, the book value of assets held for sale amounted to \$1,614,609 thousand.

6) Loans and advances to customers

As of June 30, 2010 and 2009, details of loans and advances to customers were as follows:

	<b>2010</b>	<b>2009</b>
Negotiations and discounts	\$ 3,460,233	2,381,397
Short-term unsecured loans and overdrafts	31,037,661	25,905,154
Short-term secured loans	10,682,830	8,796,940
Medium-term unsecured loans	56,096,363	64,123,497
Medium-term secured loans	5,735,157	9,684,775
Long-term unsecured loans	7,600,165	11,233,742
Long-term secured loans	212,199,594	181,491,566
Non-performing loans	<u>2,757,613</u>	<u>5,857,339</u>
Subtotal	329,569,616	309,474,410
Less: allowance for doubtful accounts	<u>3,108,849</u>	<u>3,110,052</u>
Total	<u><u>\$ 326,460,767</u></u>	<u><u>306,364,358</u></u>
Mark-to-market adjustments for the hedged assets included in the above balance	<u><u>\$ -</u></u>	<u><u>211</u></u>

The above hedging activities were accounted for as cash flow hedge and fair value hedge for the six months periods ended June 30, 2010, and 2009, respectively.

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

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

For the six months periods ended June 30, 2010 and 2009, the movements of allowance for doubtful accounts were as follows:

	<b>Specific provision</b>	<b>2010 General provision</b>	<b>Total</b>
Beginning balance	\$ 7,101,184	703,962	7,805,146
Add: provision for doubtful accounts (reversal of provision for doubtful accounts)	951,427	(161,539)	789,888
exchange rate movements and others	49,493	1,066,371	1,115,864
Less: write-off	<u>1,028,677</u>	<u>-</u>	<u>1,028,677</u>
Ending balance	<u><u>\$ 7,073,427</u></u>	<u><u>1,608,794</u></u>	<u><u>8,682,221</u></u>
	<b>Specific provision</b>	<b>2009 General provision</b>	<b>Total</b>
Beginning balance	\$ 2,700,886	1,079,533	3,780,419
Add: provision for doubtful accounts	6,293,431	1,782,225	8,075,656
Less: write-off	823,335	2,135,579	2,958,914
exchange rate movements and others	<u>1,173</u>	<u>-</u>	<u>1,173</u>
Ending balance	<u><u>\$ 8,169,809</u></u>	<u><u>726,179</u></u>	<u><u>8,895,988</u></u>

For the six months period ended June 30, 2010, the allowance for doubtful accounts was \$8,682,221 thousand. This amount consisted of loans and advances to customers of \$3,108,849 thousand and accounts receivables (including compensation receivable) of \$5,573,372 thousand. For the six months period ended June 30, 2009, the allowance for doubtful accounts was \$8,895,988 thousand. This amount consisted of loans and advances to customers of \$3,110,052 thousand and accounts receivables (including compensation receivable) of \$5,785,936 thousand.

For the six months period ended June 30, 2010, the Bank's bad debt expense was \$790,241 thousand. This amount consisted of bad debt expense for accounts receivables and loans and advances to customers of \$789,888 thousand and provision for guarantee amounting to \$353 thousand. For the six months period ended June 30, 2009, the Bank's bad debt expense was \$8,065,062 thousand. This amount consisted of bad debt expense for accounts receivables and loans and advances to customers of \$2,369,011 thousand, compensation receivable of \$5,706,645 thousand, and reversal of provision for guarantee amounting to \$10,594 thousand.

The Bank collected \$830,892 thousand and \$849,017 thousand from written-off loans during the six months periods ended June 30, 2010 and 2009, 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 operation revenue as allowance for doubtful accounts for writing off overdue loans. For the six months periods ended June 30, 2010 and 2009, the amounts of allowance for doubtful accounts generated from 3% of operating revenue were \$233,436 thousand and \$207,496 thousand, respectively.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

As of June 30, 2010 and 2009, the amounts of outstanding loans with interest charges suspended amounted to \$2,757,613 thousand and \$2,954,255 thousand, respectively. The amounts of interest not accrued derived from the aforementioned loans were \$184,268 thousand and \$44,351 thousand, respectively.

As of June 30, 2010 and 2009, loans and advances to customers excluding allowance for doubtful accounts classified by geographical region were as follows:

	2010	2009
Domestic	\$ 315,932,668	303,269,638
Overseas	<u>13,636,948</u>	<u>6,204,772</u>
Total	<u>\$ 329,569,616</u>	<u>309,474,410</u>

As of June 30, 2010 and 2009, information regarding asset quality of loans and advances to customers was as follows:

Product		Period		2010			
		Overdue loan amount	Loan balances	Overdue ratio	Allowance for bad debts	Coverage rate	
Wholesale Banking	Secured	695,310	25,215,689	2.76 %	378,746	54.47 %	
	Unsecured	815,786	50,384,272	1.62 %	975,225	119.54 %	
Consumer Banking	Mortgage	2,128,856	202,444,907	1.05 %	407,208	19.13 %	
	Personal loan	275,477	48,643,542	0.57 %	1,347,670	489.21 %	
	Others	Secured	-	2,878,206	- %	-	- %
		Unsecured	-	3,000	- %	-	- %
Total		3,915,429	329,569,616	1.19 %	3,108,849	79.40 %	
		Overdue	Accounts receivables	Overdue ratio	Allowance for bad debts	Coverage rate	
Credit card		22,994	6,392,097	0.36 %	62,166	270.36 %	
Factoring loan receivable without recourse		-	19,187,335	- %	-	- %	

Product		Period		2009			
		Overdue loan amount	Loan balances	Overdue ratio	Allowance for bad debts	Coverage rate	
Wholesale Banking	Secured	3,307,472	19,219,452	17.21 %	941,037	28.45 %	
	Unsecured	1,397,855	59,453,975	2.35 %	1,291,309	92.38 %	
Consumer Banking	Mortgage	3,202,733	180,943,106	1.77 %	493,922	15.42 %	
	Personal loan	382,529	47,004,147	0.81 %	383,784	100.33 %	
	Others	Secured	-	2,838,969	- %	-	- %
		Unsecured	-	14,761	- %	-	- %
Total		8,290,589	309,474,410	2.68 %	3,110,052	37.51 %	
		Overdue	Accounts receivables	Overdue ratio	Allowance for bad debts	Coverage rate	
Credit card		60,217	8,212,203	0.73 %	48,693	80.86 %	
Factoring loan receivable without recourse		-	6,246,763	- %	-	- %	

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

As of June 30, 2010 and 2009, the information of loans and accounts receivables which need not be reported as non-performing loans or as overdue accounts receivables were as follows:

	2010		2009	
	Loans not required to be reported as non-performing loans	Accounts receivables not required to be reported as overdue accounts receivables	Loans not required to be reported as non-performing loans	Accounts receivables not required to be reported as overdue accounts receivables
The amount not required to be reported as debts under Inter-bank Debt Relief Program without default by debtors	\$ 39,594	155,087	17,645	174,540
The amount not required to be reported as debts under debt discharge program and rehabilitation program without default by debtors	438,918	-	219,118	-
	<u>\$ 478,512</u>	<u>155,087</u>	<u>236,763</u>	<u>174,540</u>

## 7) Available-for-sale financial assets

As of June 30, 2010 and 2009, available-for-sale financial assets were as follows:

	2010	2009
Debt instruments:		
Treasury bills	\$ 1,998,968	5,161,891
Government bonds	12,884,693	26,146,830
Commercial paper	99,984	217,940
Negotiable certificates of deposits	93,000,826	51,343,250
Financial debentures	5,774,297	5,484,448
Corporate bonds	<u>3,195,270</u>	<u>5,809,352</u>
Subtotal	116,954,038	94,163,711
Beneficiary certificates	<u>4,805,054</u>	<u>4,786,956</u>
Total	<u>\$ 121,759,092</u>	<u>98,950,667</u>
Mark-to-market adjustments for hedged assets included in the above balance	<u>\$ 36,426</u>	<u>290,995</u>

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

For the six months periods ended June 30, 2010 and 2009, the movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	2010	2009
Beginning balance	\$ 28,128	352,768
Add: unrealized gain/(loss) recognized during the period	353,209	(177,736)
Less: realized gain on disposal during the period	<u>31,150</u>	<u>77,348</u>
Ending balance	<u>\$ 350,187</u>	<u>97,684</u>

(Continued)



**STANDARD CHARTERED BANK (TAIWAN) LIMITED**

**Notes to Financial Statements**

In December 2005, the carrying value of \$12,005,275 thousand 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 thousand and \$1,800,791 thousand, 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 thousand 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 thousand and \$2,911,551 thousand, 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 thousand and \$2,911,551 thousand, 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 June 30, 2010 and 2009, key assumptions used in measuring retained interests were as follows:

	<b>2010</b>	
	<b>First Issuance</b>	<b>Second Issuance</b>
Prepayment rate (annualised rate) — assumption 1	30.00 %	20.00 %
Weighted-average life	0.48 years	0.93 years
Expected credit losses rate (annualised rate) — assumption 2	1.50 %	2.50 %
Discounted rate for residual cash flows	2.60 %	2.60 %
	<b>2009</b>	
	<b>First Issuance</b>	<b>Second Issuance</b>
Prepayment rate (annualised rate) — assumption 1	30.00 %	20.00 %
Weighted-average life	0.97 years	1.58 years
Expected credit losses rate (annualised rate) — assumption 2	1.50 %	2.50 %
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 June 30, 2010 and 2009, 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:

	<b>2010</b>	
	<b>First Issuance</b>	<b>Second Issuance</b>
Carrying amount of retained interest	\$ 1,726,020	2,699,034
Assumption 1 – impact on fair value of 10% adverse change	(133)	(21,791)
Assumption 1 – impact on fair value of 20% adverse change	(271)	(22,189)
Assumption 2 – impact on fair value of 10% adverse change	(340)	(16,146)
Assumption 2 – impact on fair value of 20% adverse change	(679)	(18,209)

	<b>2009</b>	
	<b>First Issuance</b>	<b>Second Issuance</b>
Carrying amount of retained interest	\$ 1,731,020	2,685,792
Assumption 1 – impact on fair value of 10% adverse change	(683)	(1,604)
Assumption 1 – impact on fair value of 20% adverse change	(1,379)	(10,153)
Assumption 2 – impact on fair value of 10% adverse change	(1,116)	(603)
Assumption 2 – impact on fair value of 20% adverse change	(2,232)	(1,206)

C. As of June 30, 2010 and 2009, 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 six months periods ended June 30, 2010 and 2009, were summarized as follows:

	<b>2010</b>	
	<b>First Issuance</b>	<b>Second Issuance</b>
Other cash flows received on retained interests	\$ 22,959	38,857
Service fee received	2,500	2,500
Cash received for prepayment of services	159	159
Prepayment of services	(151)	(271)

	<b>2009</b>	
	<b>First Issuance</b>	<b>Second Issuance</b>
Other cash flows received on retained interests	\$ 37,694	52,875
Service fee received	2,500	2,500
Cash received for prepayment of services	304	1,421
Prepayment of services	(361)	(1,265)

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

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

	June 30, 2010			June 30, 2009		
	Percentage of ownership	Investment cost	Book value	Percentage of ownership	Investment cost	Book value
Equity method:						
Standard Chartered Life Insurance Agency Co., Ltd.	100.00	\$ 21	7,354	100.00	21	204,733
Taiwan Standard Chartered Insurance Agency Co., Ltd.	100.00	368	6,722	100.00	368	19,080
Paradigm Assets Management Co., Ltd.	-	-	-	20.00	95,747	95,747
		<u>389</u>	<u>14,076</u>		<u>96,136</u>	<u>319,560</u>
Less: accumulated impairment		-	-		-	95,747
		<u>\$ 389</u>	<u>14,076</u>		<u>96,136</u>	<u>223,813</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	5.24	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 six months periods ended June 30, 2010 and 2009, the Bank recognized investment (loss)/income from investment in associates under the equity method of \$(56,216) thousand and \$152,550 thousand, respectively. For the six months periods ended June 30, 2010 and 2009, the cash dividends from associates under the equity method were \$298,210 thousand and \$202,404 thousand, respectively, which reduced the book value of the investment.

(Continued)

**STANDARD CHARTERED BANK (TAIWAN) LIMITED**

**Notes to Financial Statements**

For the six months periods ended June 30, 2010 and 2009, the dividend revenue recognized from financial assets carried at cost were \$2,122 thousand and \$2,009 thousand, respectively, recorded as other non-interest income, net.

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

On February 8, 2010, the FSC approved the disposal of the investment in Paradigm Assets Management Co., Ltd., classified as interest in associates under equity method. The original investment cost, net book value, and proceeds from disposal were \$95,747 thousand, \$0 thousand and \$80,219 thousand, respectively. The gain on disposal of the aforementioned investment was \$80,219 thousand, which was recognized as investment income from investment in associates under equity method.

9) Property and equipment

As of June 30, 2010 and 2009, details of property and equipment were as follows:

	<b>2010</b>	<b>2009</b>
Cost:		
Land	\$ 3,734,784	3,891,845
Buildings	3,461,529	3,256,392
Office equipment	863,514	1,119,351
Transportation equipment	6,700	6,700
Leasehold improvements	560,023	498,959
Other equipment	<u>2,188,580</u>	<u>3,015,598</u>
Subtotal	10,815,130	11,788,845
Less: accumulated depreciation and impairment	<u>3,320,089</u>	<u>4,058,966</u>
Subtotal	<u>7,495,041</u>	<u>7,729,879</u>
Work in progress	1,880	42,718
Prepayment for equipment	<u>11,227</u>	<u>33,939</u>
Total	<u><u>\$ 7,508,148</u></u>	<u><u>7,806,536</u></u>

For the six months periods ended June 30, 2010 and 2009, movements of accumulated depreciation were as follows:

	<b>2010</b>	<b>2009</b>
Beginning balance	\$ 3,777,905	4,009,495
Add: depreciation	269,367	250,288
Less: disposal and obsolescence	751,153	200,817
reclassification	<u>78</u>	<u>-</u>
Ending balance	<u><u>\$ 3,296,041</u></u>	<u><u>4,058,966</u></u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 10) Intangible assets

	2010	2009
Goodwill	\$ 3,156,048	3,156,736
Deferred pension costs	154,333	228,416
Software	<u>177,820</u>	<u>251,888</u>
	<u>\$ 3,488,201</u>	<u>3,637,040</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 thousand, based on SFAS No. 25 "Business Combinations", as stated in note 10(3).

For the six months periods ended June 30, 2010 and 2009, the recognized amortization expenses from computer software were \$43,016 thousand and \$46,667 thousand, respectively, recognized as operating expenses – depreciation and amortization expenses.

## 11) Other assets

As of June 30, 2010 and 2009, details of other assets were as follows:

	2010	2009
Deferred income tax assets, net	\$ 3,644,667	4,777,383
Idle assets, net of accumulated impairment of \$25,035 thousand and \$3,231 thousand as of June 30, 2010 and 2009, respectively	620,556	29,871
Assets leased to others, net of accumulated impairment of \$746 thousand as of June 30, 2010	329,226	325,473
Foreclosed assets, net of accumulated impairment of \$759,827 thousand as of June 30, 2009	-	444,712
Refundable deposits	597,735	651,252
Derivatives call loan	58	476,077
Prepaid expenses	174,382	167,892
Others	<u>181,216</u>	<u>81,965</u>
	<u>\$ 5,547,840</u>	<u>6,954,625</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 June 30, 2010, future lease payments to be received were as follows:

Period	Amount
for the second half year of 2010	\$ 11,613
2011	33,276
2012	26,960
2013	25,294
2014 and thereafter	<u>24,314</u>
	<u><u>\$ 121,457</u></u>

## 12) Bills and bonds sold under repurchase agreements

As of June 30, 2010 and 2009, the book value of underlying assets of bills and bonds sold under repurchase agreements were as follows:

	2010	2009
Bills and bonds sold under repurchase agreements	<u>\$ -</u>	<u>983,541</u>

As of June 30, 2009, the settlement date for bills and bonds sold under repurchase agreements was July 1, 2009; interest rates of the aforementioned repurchase agreements ranged from (0.50)% to 0.10%. The contracted prices for the aforementioned repurchase agreements was \$983,542 thousand.

## 13) Deposits and remittances

As of June 30, 2010 and 2009, deposits and remittances were as follows:

	2010	2009
Checking deposits	\$ 3,216,577	3,230,572
Demand deposits	178,862,558	158,878,991
Time deposits	149,159,240	100,925,894
Savings deposits	121,561,940	119,890,139
Time savings deposits	68,151,390	100,097,630
Trust fund with designated purpose	520,396	4,156,145
Remittances	<u>92,860</u>	<u>472,347</u>
Total	<u><u>\$ 521,564,961</u></u>	<u><u>487,651,718</u></u>
Mark-to-market adjustments for the hedged liabilities included in the above balance	<u><u>\$ 22,018</u></u>	<u><u>56,626</u></u>

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

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 14) Financial debentures

As of June 30, 2010 and 2009, details of subordinated debentures issued by the Bank were as follows:

Bond	Conditions for issuance	2010	2009
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	1,200
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%	27,600	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
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	-	4,921,569
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	4,841,207	-
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	4,841,207	-
		19,711,214	19,722,769
	Mark-to-market adjustment on hedged items	69,324	-
		<b>\$ 19,780,538</b>	<b>19,722,769</b>

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

The board of directors approved the issuance of the 91-1A subordinated debentures at a total amount \$8,000,000 thousand 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 94-1 and 94-2 cumulative subordinated debentures without maturity dates at a total amount of \$10,000,000 thousand 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. As of June 30, 2010, 94-2 subordinated debentures were completely redeemed.

The board of directors approved the issuance of the 95-1 unsecured subordinated debentures of year 2006 at a total amount of \$4,800,000 thousand 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.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

The board of directors approved the issuance of the 97-1 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 98-1 subordinated debentures of the year 2009 at a total amount of \$10,000,000 thousand 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.

The board of directors approved the issuance of the 98-2 and 98-3 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 thousand and USD 150,000 thousand, respectively, were completely redeemed in 2009.

## 15) Interest income

For the six months periods ended June 30, 2010 and 2009, details of interest income were as follows:

	2010	2009
Interbank transactions	\$ 299,431	1,067,767
Loans and advances to customers	4,602,218	4,923,919
Credit cards (revolving)	291,166	465,731
Financial assets at fair value through profit or loss	138,085	138,899
Available-for-sale financial assets	460,354	857,305
Total	<u>\$ 5,791,254</u>	<u>7,453,621</u>

## 16) Other non-interest income (loss)

For the six months periods ended June 30, 2010 and 2009, details of non-interest income (loss) were as follows:

	2010	2009
Securities brokerage commissions	\$ 72,788	107,620
Rental income	14,420	25,061
Net gain on disposal of investment	-	15,506
Loss on obsolescence of fixed assets	(17,593)	(15,319)
Loss on obsolescence of intangible assets	(31)	(377)
Net gain on disposal of idle assets	7,010	-
Net gain on disposal of leased assets	47,164	-
Net gain on disposal of collaterals	107,875	-
Net gain on disposal of assets held for sale	-	8,838
Dividend income from financial assets carried at cost	2,122	2,009
Gain on sale of non-performing loans	70,342	-
Others	(17,440)	15,806
Total	<u>\$ 286,657</u>	<u>159,144</u>

(Continued)



## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 17) Pension

For the six months periods ended June 30, 2010 and 2009, the related pension assets, costs, and accrued liabilities of the Bank were as follows:

	2010	2009
Fair value of pension assets at end of period	\$ 1,576,713	1,824,984
Pension cost:		
Defined benefit pension scheme	130,073	149,627
Defined contribution pension scheme	74,546	79,316
Accrued pension liabilities	639,030	354,145

For the six months period ended June 30, 2010, net pension costs for employees of affiliates was \$3,208 thousand.

## 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 six months periods ended June 30, 2010 and 2009, the 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 adhering to a three years or five years share-saving contract. Within six months after the vesting period of a three years or five years contracted term, employees are entitled to exercise their share options for 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:

	2010	2009
Beginning balance	715,514	781,577
Less: exercised	22,297	19,031
lapsed	<u>27,918</u>	<u>197,145</u>
Ending balance	<u><u>665,299</u></u>	<u><u>565,401</u></u>

For the six months periods ended June 30, 2010 and 2009, the costs of the ISS charged to profits or losses were \$26,721 thousand and \$22,471 thousand, respectively, recorded as operating expenses – staff costs.

The valuation of share options is performed using a binomial option-pricing model.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 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. Executive directors are not generally eligible to participate in the RSS. On the second anniversary after the grant date of SC PLC Group, 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:

	2010	2009
Beginning balance	141,749	71,198
Add: granted	119,064	76,303
Less: exercised	7,908	4,489
lapsed	4,048	3,764
Ending balance	<u>248,857</u>	<u>139,248</u>

For the six months periods ended June 30, 2010 and 2009, the costs of the RSS charged to profits or losses were \$15,783 thousand and \$21,331 thousand, 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.

## 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 Earnings Per Share ("EPS") performance condition must be achieved before executive directors and management are entitled to exercise the share options.

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

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:

	2010	2009
Beginning balance	6,005	6,005
Add: granted	-	-
Less: exercised	-	-
lapsed	-	-
Ending balance	<u>6,005</u>	<u>6,005</u>

There were no costs of the ESOS charged to profit or loss recognized for the six months periods ended June 30, 2010 and 2009.

The valuation of share options is performed using a binomial option-pricing model. There were no such share-based award granted for the six months period ended June 30, 2010 and 2009, respectively.

## 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:

	2010	2009
Beginning balance	113,439	52,383
Add: granted	-	61,056
Less: exercised	3,963	-
lapsed	4,239	-
Ending balance	<u>105,237</u>	<u>113,439</u>

For the six months periods ended June 30, 2010 and 2009, the costs of the PSP charged to profit or loss were \$5,822 thousand and \$6,594 thousand, 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.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 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. Executive directors are not permitted to participate in SRSS, and new shares issued are forbidden to be used as rewards. 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:

	2010	2009
Beginning balance	13,157	5,142
Add: granted	29,437	6,033
Less: exercised	-	-
lapsed	331	-
Ending balance	<u>42,263</u>	<u>11,175</u>

For the six months periods ended June 30, 2010 and 2009, the costs of the SRSS charged to profits or losses were \$6,918 thousand and \$1,859 thousand, 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.

## 19) Income tax

The Bank is subject to the R.O.C. income tax at a maximum rate of 25% in 2009. Starting January 1, 2010, the enacted income tax rate would be reduced to 20% and then reduced to 17%, based on the newly amended Income Tax Act of May 27, 2009 and of June 15, 2010. The income tax rates adopted by the Bank during the years ended December 31, 2010 and 2009 are 17% and 25%, respectively, and the Bank's basic statutory tax amount is based on the R.O.C. "Income Basic Tax Act". The income tax expense (benefit) for the six months periods ended June 30, 2010 and 2009, were as follows:

	2010	2009
Current income tax expense	\$ 341,329	96,629
Deferred income tax expense (benefit)	1,089,694	(293,745)
Additional 10% surtax on undistributed earnings	-	1,254
basic income tax	<u>33,676</u>	<u>-</u>
Income tax expense (benefit)	<u>\$ 1,464,699</u>	<u>(195,862)</u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

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 six months periods ended June 30, 2010 and 2009, were as follows:

	2010	2009
Income tax at statutory rate	\$ 479,562	(1,208,746)
Adjustment:		
Tax-exempt OBU income	(47,332)	(112,088)
Tax-exempt income from securities trading	(10,258)	(69,519)
Net unrealized (profit) loss on valuation of trading financial assets and liabilities	(1,927)	43,254
Adjustments for separately taxed interest income	668	(137,878)
Investment loss/(income) recognized under equity method	9,557	(38,138)
Prior-year income tax adjustments	336,875	-
Other adjustments for tax regulation	(62,944)	118,522
Adjustment due to change in income tax rate	726,822	1,208,731
Basic income tax	33,676	-
Income tax expense (benefit)	<u>\$ 1,464,699</u>	<u>(195,862)</u>

For the six months periods ended June 30, 2010 and 2009, the components of deferred income tax expense (benefit) were as follows:

	2010	2009
Deferred revenue	\$ 21,207	54,397
Provision for guarantee in excess of limit	10,963	-
Reserve for trading loss and default loss in excess of limit	(570)	(3,949)
Depreciation of property and equipment	23,507	16,679
(Pension cost in excess of limit) Reversal of pension costs	(12,475)	412
Reversal of impairment loss on assets	58,732	23,417
Realized gain on inter-affiliate transactions	-	9
Unrealized interest income from financial assets	17,369	19,459
Overestimation (underestimation) of prior years' loss carryforwards	107,054	(38,034)
Decrease (increase) in loss carryforwards	265,439	(279,410)
Deferred income tax adjustment due to change in tax rate	726,822	896,728
Allowance for doubtful accounts in excess of limit	(129,628)	(1,015,020)
Goodwill amortization	26,826	31,567
Expenses from share-based payments	(25,552)	-
Deferred income tax expense (benefit)	<u>\$ 1,089,694</u>	<u>(293,745)</u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

As of June 30, 2010 and 2009, details of the temporary differences, loss carryforwards and tax credits, and their respective income tax effect were as follows:

	2010		2009	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Reserve for trading losses and default losses	\$ 156,174	26,549	141,088	28,217
Asset impairment loss	240,449	40,877	1,257,136	251,427
Pension costs	394,992	67,149	36,025	7,205
Depreciation of property and equipment	(75,876)	(12,899)	49,757	9,951
Unrealized gain on inter-affiliate transactions	5,873	998	5,922	1,185
Loss carryforwards	13,959,545	2,373,123	13,758,592	2,751,719
Deferred revenue	339,059	57,640	548,831	109,766
Allowance for doubtful accounts	5,188,140	881,984	5,709,475	1,141,895
Unrealized interest income from financial assets	2,336,667	397,233	2,537,925	507,585
Goodwill amortization	(473,407)	(80,479)	(157,837)	(31,567)
Expenses from share-based payments	150,308	25,552	-	-
Unrealized gain on available-for-sale financial assets	(718,228)	(122,099)	-	-
Unrealized gain on cash flow hedge	(64,479)	(10,961)	-	-
		<u>\$ 3,644,667</u>		<u>4,777,383</u>

As of June 30, 2010 and 2009, the components of tax refund receivables recorded under accounts receivables were as follows:

	2010	2009
Current income tax	\$ (341,329)	(96,629)
Withheld income tax	85,073	46,803
Income tax receivables from prior years	196,648	205,014
Prior-year income tax adjustments	336,875	-
Separate tax on interest income	4,452	96,629
Additional 10% surtax on undistributed earnings	-	(1,254)
Basic income tax	<u>(33,676)</u>	<u>-</u>
	<u>\$ 248,043</u>	<u>250,563</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 June 30, 2010, the amount of loss carryforwards and the year of expiry were as follows:

Year loss incurred	Amount	Year of expiry
2006 (examined)	\$ 4,438,830	2016
2008 (reported)	6,171,264	2018
2009 (reported)	<u>3,349,451</u>	2019
	<u>\$ 13,959,545</u>	

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

The Bank's income tax returns have been examined by the tax authority for all years through 2006.

The balances of the imputation credit account (ICA) as of June 30, 2010 and 2009, were as follows:

	2010	2009
ICA	\$ <u>509,611</u>	<u>777,493</u>
	2009 (actual)	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 June 30, 2010 and 2009, 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.

## 20) Stockholders' equity

## A. Common stock

On September 29 and October 22, 2008, the board of directors approved an increase in capital by an 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 shareholders' equity 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 June 30, 2010 and 2009, details of capital surplus were as follows:

	2010	2009
Capital surplus provided by the amount in excess of par value	\$ <u>-</u>	<u>6,183,410</u>

On May 27, 2010, the shareholders approved the elimination of the accumulated deficits by transferred of appropriated legal reserve and capital surplus of \$5,374 thousand and \$4,644,410 thousand, respectively.

(Continued)

**STANDARD CHARTERED BANK (TAIWAN) LIMITED**

**Notes to Financial Statements**

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 common stock equity, the amount of profit distributed as cash dividends may not exceed 15 percent of total common stock equity. The aforementioned rule is not required to be complied with if the amount of legal reserve is equal to the total amount of common stock equity. 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 thousand.

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%

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 June 30, 2010 and 2009, the weighted-average number of common shares outstanding were 2,910,572 thousand shares and 2,485,572 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, balances at Central Bank and loans and advances to banks, bills and bonds purchased under reverse repurchase agreements, accounts receivables, refundable deposits recorded as other assets, deposits by Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, and guarantee deposits.

(Continued)



**STANDARD CHARTERED BANK (TAIWAN) LIMITED**

**Notes to Financial Statements**

- 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.
- 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 June 30, 2010 and 2009, the fair values of the Bank's financial assets and liabilities evaluated using valuation techniques were as listed below:

<b>Accounts</b>	<b>2010</b>	<b>2009</b>
Financial assets at fair value through profit or loss – debt instruments	10,457,782	3,336,767
Financial assets at fair value through profit or loss – derivatives	19,998,380	25,927,281
Available-for-sale financial assets – debt instruments	116,954,038	94,163,711
Available-for-sale financial assets – beneficiary certificates	4,805,054	4,786,956
Financial liabilities at fair value through profit or loss – debt instruments	-	1,459,537
Financial liabilities at fair value through profit or loss – derivatives	16,858,836	23,622,698

For the six months periods ended June 30, 2010 and 2009, the Bank recognized gain amounting to \$1,850,762 thousand and \$2,525,613 thousand, respectively, from the changes in fair value of financial instruments that were evaluated using valuation techniques.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

- B. As of June 30, 2010 and 2009, outstanding derivative contracts held by the Bank were as listed below:

	Notional amount	June 30, 2010	
		Gain (assets)	Loss (liabilities)
Forward rate agreements	\$ 2,645,494	398	144
Option contracts	92,353,415	725,886	759,327
Forward contracts	566,940,903	8,081,759	4,083,165
Cross-currency swaps	135,791,362	3,053,798	1,799,734
Interest rate swaps	1,099,469,888	7,116,691	9,491,893
Interest rate derivatives	169,558,457	836,444	541,169
Commodity swaps	18,801,336	183,404	183,404
	<u>\$ 2,085,560,855</u>	<u>19,998,380</u>	<u>16,858,836</u>

  

	Notional amount	June 30, 2009	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 164,291,929	1,555,430	1,552,586
Forward contracts	468,917,746	8,398,756	3,529,922
Cross-currency swaps	164,922,394	3,176,500	2,481,351
Interest rate swaps	969,711,029	10,577,851	13,856,238
Interest rate derivatives	85,651,814	475,219	459,076
Commodity swaps	38,963,804	1,743,525	1,743,525
	<u>\$ 1,892,458,716</u>	<u>25,927,281</u>	<u>23,622,698</u>

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

- C. Financial risk management and risk information

a. Market risk

The Bank used 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 previous 250 trading days.

The table below lists the market risk of financial instruments of the Bank as of June 30, 2010 and 2009. Market risk represents potential losses that the Bank may suffer in one day when unfavorable changes occur on the Bank's position at a 97.5% confidence interval under a certain price probability distribution.

Type of market risk	Annual average	2010		2009		
		Maximum	Minimum	Annual average	Maximum	Minimum
Exchange rate	\$ 18,995	30,995	7,479	11,272	23,986	2,970
Interest rate	33,431	50,039	18,846	45,510	69,032	37,174

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 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 June 30, 2010 and 2009, the percentages of loans with collateral were 69.95% and 65.60%, 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 maximum credit exposures.

As of June 30, 2010 and 2009, the maximum credit risk exposure of the Bank's loans and advances to customers excluding allowance for doubtful accounts in the event of other parties failing to perform their obligations were as summarized below by industry category:

Industry	2010	2009
Manufacturing	\$ 37,124,860	42,217,353
Commercial	11,230,921	16,401,265
Construction	1,783,858	2,440,695
Financial	5,513,346	-
Individual	259,650,222	233,857,315
Others	<u>14,266,409</u>	<u>14,557,782</u>
	<u>\$ 329,569,616</u>	<u>309,474,410</u>

The amount of the abovementioned credit risk was assessed based on the financial instruments with positive fair value at the balance sheet date. 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 positions in a number of industries and with a variety of counterparties or obligors.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

As of June 30, 2010 and 2009, the industry classifications of the 10 group enterprises with the largest outstanding loans were as follows:

<b>June 30, 2010</b>			
<b>Rank</b>	<b>Industry Classification of Group Enterprise</b>	<b>Outstanding loan</b>	<b>% of net assets</b>
1	Petrochemical manufacturing industry	4,914,314	13.38 %
2	Retail sale of computer and peripheral equipment, software	3,872,966	10.55 %
3	Real estate and rental and leasing	3,300,000	8.99 %
4	LCD and components manufacturing industry	2,339,540	6.37 %
5	Computer manufacturing	1,963,637	5.35 %
6	Wholesale industry	1,899,577	5.17 %
7	LCD and components manufacturing industry	1,538,206	4.19 %
8	Wire and cable manufacturing industry	1,457,006	3.97 %
9	Computer manufacturing	1,405,741	3.83 %
10	Semiconductor manufacturing industry	1,384,471	3.77 %

<b>June 30, 2009</b>			
<b>Rank</b>	<b>Industry Classification of Group Enterprise</b>	<b>Outstanding loan</b>	<b>% of net assets</b>
1	LCD and components manufacturing industry	5,681,489	21.28 %
2	LCD and components manufacturing industry	4,618,582	17.29 %
3	Semiconductor manufacturing industry	1,820,838	6.82 %
4	Wholesale industry	1,418,000	5.31 %
5	Wire and cable manufacturing industry	1,359,390	5.09 %
6	Footwear manufacturing industry	1,305,734	4.89 %
7	Semiconductor manufacturing industry	1,269,528	4.75 %
8	Petrochemical manufacturing industry	1,180,452	4.42 %
9	Cable TV and other pay program industry	1,113,413	4.17 %
10	Wholesale industry	1,003,727	3.76 %

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

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## c. Liquidity risk

As of June 30, 2010 and 2009, the liquidity reserve ratios were 31.74% and 30.22%, respectively; liquidity risk of derivatives instruments held by the Bank is low except for interest rate swaps, which had a leverage effect. Therefore, this limits the exposure to 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 the liquidity profile of the Bank. As of June 30, 2010 and 2009, 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 financial instruments contractual maturity. If the assets or liabilities have no contractual maturity date, they are classified to the "over 5 years" category.

Financial Assets	2010				Total
	Within 3 months	3 months-1 year	1~5 years	Over 5 years	
Cash and cash equivalents	\$ 7,548,293	-	-	-	7,548,293
Balance at Central Bank and loans and advances to banks	85,040,851	3,840,101	-	14,822,640	103,703,592
Financial assets at fair value through profit or loss	4,056,232	10,554,903	15,171,629	673,398	30,456,162
Loans and advances to customers, net	37,774,709	13,206,553	33,565,528	241,913,977	326,460,767
Available-for-sale financial assets	69,408,305	30,765,548	16,703,443	4,881,796	121,759,092
Other financial assets	226,067	-	-	292,239	518,306
Total	<u>\$ 204,054,457</u>	<u>58,367,105</u>	<u>65,440,600</u>	<u>262,584,050</u>	<u>590,446,212</u>
<b>Financial Liabilities</b>					
Deposits by Central Bank and other banks	\$ 19,487,052	12,273,194	-	206,285	31,966,531
Financial liabilities at fair value through profit or loss	2,658,285	3,762,125	10,017,802	420,624	16,858,836
Deposits and remittances	393,719,257	94,904,368	26,719,254	6,222,082	521,564,961
Financial debentures	1,200	-	-	19,779,338	19,780,538
Other financial liabilities	167,556	-	-	-	167,556
Total	<u>\$ 416,033,350</u>	<u>110,939,687</u>	<u>36,737,056</u>	<u>26,628,329</u>	<u>590,338,422</u>
Gap	<u>\$ (211,978,893)</u>	<u>(52,572,582)</u>	<u>28,703,544</u>	<u>235,955,721</u>	<u>107,790</u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

Financial Assets	Within 3 months	3 months-1 year	2009		Total
			1~5 years	Over 5 years	
Cash and cash equivalents	\$ 5,179,675	-	-	-	5,179,675
Balance at Central Bank and loans and advances to banks	99,212,319	20,831,153	-	14,060,668	134,104,140
Financial assets at fair value through profit or loss	26,122,686	-	2,702,365	438,997	29,264,048
Loans and advances to customers, net	31,162,768	3,028,994	40,650,020	231,522,576	306,364,358
Available-for-sale financial assets	57,331,743	8,193,875	22,498,938	10,926,111	98,950,667
Other financial assets	60,765	2,402	-	293,642	356,809
Total	<u>\$ 219,069,956</u>	<u>32,056,424</u>	<u>65,851,323</u>	<u>257,241,994</u>	<u>574,219,697</u>
<b>Financial Liabilities</b>					
Deposits by Central Bank and other banks	\$ 35,042,397	4,006,018	-	-	39,048,415
Financial liabilities at fair value through profit or loss	4,648,220	4,322,612	15,678,626	432,777	25,082,235
Deposits and remittances	385,139,497	94,162,031	8,350,190	-	487,651,718
Financial debentures	1,200	-	4,800,000	14,921,569	19,722,769
Other financial liabilities	304,477	-	-	-	304,477
Total	<u>\$ 425,135,791</u>	<u>102,490,661</u>	<u>28,828,816</u>	<u>15,354,346</u>	<u>571,809,614</u>
Gap	<u>\$ (206,065,835)</u>	<u>(70,434,237)</u>	<u>37,022,507</u>	<u>241,887,648</u>	<u>2,410,083</u>

Maturity analyses of the Bank's assets and liabilities in the format required by the regulators were as follows:

Structure Analysis of Maturity Date (New Taiwan Dollars)  
June 30, 2010

	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	\$ 754,928,746	170,300,563	103,507,263	82,624,496	71,160,998	327,335,426
Capital used	786,938,927	137,606,576	137,017,525	124,606,240	87,027,708	300,680,878
Gap	(32,010,181)	32,693,987	(33,510,262)	(41,981,744)	(15,866,710)	26,654,548

Structure Analysis of Maturity Date (U.S. Dollars)  
June 30, 2010

(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	\$ 12,428,353	3,368,901	2,031,422	3,011,921	1,515,896	2,500,213
Capital used	11,601,846	3,708,463	2,760,641	2,116,333	940,356	2,076,053
Gap	826,507	(339,562)	(729,219)	895,588	575,540	424,160

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

Structure Analysis of Maturity Date (New Taiwan Dollars)  
June 30, 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	\$ 707,767,530	194,792,752	68,531,746	48,974,355	56,253,178	339,215,499
Capital used	731,879,383	123,831,953	114,055,775	111,245,124	104,339,574	278,406,957
Gap	(24,111,853)	70,960,799	(45,524,029)	(62,270,769)	(48,086,396)	60,808,542

Structure Analysis of Maturity Date (U.S. Dollars)  
June 30, 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	\$ 10,784,575	2,453,740	2,901,686	2,080,235	716,595	2,632,319
Capital used	10,056,055	4,306,460	2,039,515	1,116,247	687,526	1,906,307
Gap	728,520	(1,852,720)	862,171	963,988	29,069	726,012

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

Cash flow risk arises from assets and liabilities with floating interest rates held by the Bank where the cash flow may fluctuate due to changes in market interest rates. Fair value risk arises from changes in the fair value of fixed interest rates assets and liabilities held by the Bank due to change 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 June 30, 2010 and 2009, 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.

Financial Assets	June 30, 2010									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	\$ 3,174,575	-	-	-	-	-	-	-	4,373,718	7,548,293
Balance at Central Bank and loans and advances to banks	66,786,265	5,643,719	31,273,608	-	-	-	-	-	-	103,703,592
Financial assets at fair value through profit or loss	30,215,066	31,768	45,213	91,870	38,343	6,392	27,510	-	-	30,456,162
Loans and advances to customers, net	22,459,736	15,314,973	13,206,553	5,596,489	8,186,486	7,823,287	11,959,266	236,340,339	5,573,638	326,460,767
Available-for-sale financial assets	38,345,301	31,122,685	30,765,147	9,619,170	4,631,122	619,501	1,774,370	4,881,796	-	121,759,092
Other financial assets	226,067	-	-	-	-	-	-	292,239	-	518,306
<b>Total</b>	<b>\$ 161,207,010</b>	<b>52,113,145</b>	<b>75,290,521</b>	<b>15,307,529</b>	<b>12,855,951</b>	<b>8,449,180</b>	<b>13,761,146</b>	<b>241,514,374</b>	<b>9,947,356</b>	<b>590,446,212</b>
<b>Financial Liabilities</b>										
Deposits by Central Bank and other banks	\$ 15,816,139	3,877,198	12,273,194	-	-	-	-	-	-	31,966,531
Financial liabilities at fair value through profit or loss	16,693,815	35,531	53,429	10,611	5,036	9,892	-	50,522	-	16,858,836
Deposits and remittances	342,118,623	51,295,651	94,904,368	6,116,847	15,820,453	100,000	4,681,954	6,222,082	304,983	521,564,961
Financial debentures	19,780,538	-	-	-	-	-	-	-	-	19,780,538
Other financial liabilities	167,556	-	-	-	-	-	-	-	-	167,556
<b>Total</b>	<b>\$ 394,576,671</b>	<b>55,208,380</b>	<b>107,230,991</b>	<b>6,127,458</b>	<b>15,825,489</b>	<b>109,892</b>	<b>4,681,954</b>	<b>6,272,604</b>	<b>304,983</b>	<b>590,338,422</b>
<b>Sensitivity gap</b>	<b>\$ (233,369,661)</b>	<b>(3,095,235)</b>	<b>(31,940,470)</b>	<b>9,180,071</b>	<b>(2,969,538)</b>	<b>8,339,288</b>	<b>9,079,192</b>	<b>235,241,770</b>	<b>9,642,373</b>	<b>107,790</b>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

Financial Assets	June 30, 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	\$ 943,468	-	-	-	-	-	-	-	4,236,207	5,179,675
Balance at Central Bank and loans and advances to banks	11,775,251	87,437,068	20,831,153	-	-	-	-	-	14,060,668	134,104,140
Financial assets at fair value through profit or loss	24,259,405	1,863,281	-	-	1,247,332	1,198,003	257,030	438,997	-	29,264,048
Loans and advances to customers, net	7,502,706	23,660,062	3,028,993	7,234,201	9,697,344	8,808,837	14,909,639	231,431,809	90,767	306,364,358
Available-for-sale financial assets	743,250	56,588,493	8,193,875	11,661,122	6,302,102	2,950,959	1,584,755	10,925,843	268	98,950,667
Other financial assets	60,765	-	2,402	-	-	-	-	-	293,642	356,809
<b>Total</b>	<b>\$ 45,284,845</b>	<b>169,548,904</b>	<b>32,056,423</b>	<b>18,895,323</b>	<b>17,246,778</b>	<b>12,957,799</b>	<b>16,751,424</b>	<b>242,796,649</b>	<b>18,681,552</b>	<b>574,219,697</b>
<b>Financial Liabilities</b>										
Deposits by Central Bank and other banks	\$ 17,469,206	17,573,191	4,006,018	-	-	-	-	-	-	39,048,415
Financial liabilities at fair value through profit or loss	-	4,648,219	4,322,612	4,743,248	5,876,135	4,028,501	1,030,743	432,777	-	25,082,235
Deposits and remittances	288,560,279	96,579,219	94,162,031	7,773,149	577,040	-	-	-	-	487,651,718
Financial debentures	1,200	-	-	-	-	-	4,800,000	4,921,569	10,000,000	19,722,769
Other financial liabilities	-	304,477	-	-	-	-	-	-	-	304,477
<b>Total</b>	<b>\$ 306,030,685</b>	<b>119,105,106</b>	<b>102,490,661</b>	<b>12,516,397</b>	<b>6,453,175</b>	<b>4,028,501</b>	<b>5,830,743</b>	<b>5,354,346</b>	<b>10,000,000</b>	<b>571,809,614</b>
Sensitivity gap	\$ (260,745,840)	50,443,798	(70,434,238)	6,378,926	10,793,603	8,929,298	10,920,681	237,442,303	8,681,552	2,410,083

Sensitivity analyses of the Bank's assets and liabilities in the format required by the regulators were as follows:

Interest-Rate Sensitivity Analysis (New Taiwan Dollars)  
June 30, 2010

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 125,715,954	35,626,152	48,031,134	243,197,161	452,570,401
Interest-rate-sensitive liabilities	87,826,296	266,872,998	58,824,193	22,167,992	435,691,479
Interest-rate-sensitive spread	37,889,658	(231,246,846)	(10,793,059)	221,029,169	16,878,922
New worth					36,716,399
Ratio of interest-rate-sensitive assets to liabilities (%)					103.87
Ratio of interest-rate-sensitive spread to net worth (%)					45.97

Interest-Rate Sensitivity Analysis (U.S. Dollars)  
June 30, 2010

(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	\$ 1,169,093	515,018	598,414	200,972	2,483,497
Interest-rate-sensitive liabilities	523,051	1,440,318	228,439	325,697	2,517,505
Interest-rate-sensitive spread	646,042	(925,300)	369,975	(124,725)	(34,008)
Net worth					58,858
Ratio of interest-rate-sensitive assets to liabilities (%)					98.65
Ratio of interest-rate-sensitive spread to net worth (%)					(57.78)

(Continued)



## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

Interest-Rate Sensitivity Analysis (New Taiwan Dollars)  
June 30, 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	\$ 336,727,169	9,962,849	7,358,785	71,983,559	426,032,362
Interest-rate-sensitive liabilities	120,728,022	205,545,585	37,217,667	44,867,548	408,358,822
Interest-rate-sensitive spread	215,999,147	(195,582,736)	(29,858,882)	27,116,011	17,673,540
Net worth					26,704,793
Ratio of interest-rate-sensitive assets to liabilities (%)					104.33
Ratio of interest-rate-sensitive spread to net worth (%)					66.18

Interest-Rate Sensitivity Analysis (U.S. Dollars)  
June 30, 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	\$ 2,172,250	510,377	106,761	148,590	2,937,978
Interest-rate-sensitive liabilities	2,481,529	106,181	78,990	458,789	3,125,489
Interest-rate-sensitive spread	(309,279)	404,196	27,771	(310,199)	(187,511)
Net worth					90,859
Ratio of interest-rate-sensitive assets to liabilities (%)					94.00
Ratio of interest-rate-sensitive spread to net worth (%)					(206.38)

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

	2010	
	Average amount	Average %
Assets:		
Balance at Central Bank	13,767,549	0.32
Loans and advances to banks (including deposits with affiliate companies and advances to affiliate companies)	95,941,396	0.99
Loans and advances to customers	338,855,688	2.65
Financial assets at fair value through profit or loss	9,323,455	0.90
Available-for-sale financial assets	105,581,968	0.86
Liabilities:		
Deposits by Central Bank and loans from other banks (including deposits from affiliate companies)	44,071,331	0.59
Demand deposits (including local currency and foreign currency)	311,334,452	0.13
Time deposits (including local currency and foreign currency)	178,241,774	0.44
Negotiable certificates of deposits	819,812	0.36
Financial debentures	20,158,148	3.22

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

	2009	
	Average amount	Average %
Assets:		
Balance at Central Bank	\$ 12,765,125	0.45
Loans and advances to banks (including deposits with affiliate companies and advances to affiliate companies)	122,342,230	1.91
Loans and advances to customers	326,410,467	3.32
Financial assets at fair value through profit or loss	5,079,743	1.64
Available-for-sale financial assets	115,435,484	1.49
Liabilities:		
Deposits by Central Bank and loans from other banks (including deposits from affiliate companies)	38,906,001	0.78
Demand deposits (including local currency and foreign currency)	267,568,911	0.25
Time deposits (including local currency and foreign currency)	248,593,724	1.69
Negotiable certificates of deposits	354,838	0.51
Financial debentures	19,831,738	2.73

## f. Operational risk

Operational risk can be defined as the risk of monetary losses resulting from inadequate or failure of internal processes, people, and systems or from external events. The Bank implements monitoring systems for operational risk exposures and losses for each major business lines. Risk management policies and procedures for controlling or mitigating operational risk are put 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 counterparties contracts, and making sure that the Bank follows the financial regulations and operational regulations.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## D. Fair value hedge

A fair value hedge is the hedging of the hedged items exposure to change in fair value of recognized fixed-rate assets or liabilities that are attributable to particular hedged risks that could affect profit and loss. As of June 30, 2010 and 2009, mark-to-market adjustments of hedged items and the corresponding hedging instruments accounted as fair value hedge were as follows:

Hedged item Underlying instruments	2010	Hedging instruments Contract type	2010
Available-for-sale financial assets:			
Government bonds and corporate bonds	\$ 13,066	Interest rate swaps	\$ (12,117)
Government bonds	23,360	Cross-currency swaps	(23,076)
Time deposits – NTD	(22,018)	Interest rate swaps	21,907
Subordinated debentures	(69,324)	Interest rate swaps	72,478
	<u>\$ (54,916)</u>		<u>\$ 59,192</u>

Hedged item Underlying instruments	2009	Hedging instruments Contract type	2009
Loans and advances to customers	\$ 211	Interest rate swaps	\$ (204)
Available-for-sale financial assets:			
Government bonds and corporate bonds	291,141	Interest rate swaps	(299,724)
Government bonds	(146)	Cross-currency swaps	117
Time deposits – NTD	(56,626)	Interest rate swaps	56,099
	<u>\$ 234,580</u>		<u>\$ (243,712)</u>

## E. Cash flow hedge

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

As of June 30, 2010, 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	\$ 54,600,000	64,239	2009-2015	2009-2015

The detail of unrealized gains or losses on cash flow hedge for the six months period ended June 30, 2010, was as below:

	2010
Adjustments to stockholders' equity	<u>\$ 50,264</u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## (5) Related-party transactions

## 1) Name and relationship of related parties

Name	Relationship
Standard Chartered Bank ("SCB")	The Bank's parent company
Standard Chartered Life Insurance Agency Co., Ltd. ("Standard Chartered Life Insurance Agency")	Investee under equity method
Taiwan Standard Chartered Insurance Agency Co., Ltd. ("Taiwan Standard Chartered Insurance Agency")	Investee under equity method
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 Limited Singapore ("AEB Singapore")	Affiliate
Standard Chartered Bank Malaysia ("SCB Malaysia")	Affiliate
Standard Chartered Bank Germany ("SCB Germany")	Affiliate
Scope International Private Limited	Affiliate
Standard Chartered First Bank Korea Limited ("SCFB Korea")	Affiliate
Standard Chartered Bank (China) Limited ("SCB China")	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 senior management of the Bank

## 2) Significant transactions with related parties

## A. Deposits

As of June 30, 2010 and 2009, deposits provided by related parties were as summarized below:

Name	2010		Interest rate (%)
	Ending balance	Percentage of deposits (%)	
Deposits by individual related parties not over 1% of total deposits	\$ <u>935,017</u>	<u>0.18</u>	0.00~3.40

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

2009			
Name	Ending balance	Percentage of deposits (%)	Interest rate (%)
Deposits by individual related parties not over 1% of total deposits	\$ <u>549,598</u>	<u>0.11</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. In addition, preferential deposit interest rate for employees was cancelled in April, 2010.

For the six months periods ended June 30, 2010 and 2009, interest expenses on the above deposits were \$2,690 thousand and \$5,793 thousand, respectively.

## B. Loans

As of June 30, 2010 and 2009, loans to related parties were as below:

2010							
Type of loan	Number of accounts or name of related party	Maximum during the period	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On-schedule	Overdue		
Employee consumer loans	14	7,177	5,148	5,148	-	Unsecured lending	None
Mortgage	41	252,888	236,890	236,890	-	House	None
Others	2	5,392	3,985	3,985	-	Overdraft on the comprehensive deposits	None

  

2009							
Type of loan	Number of accounts or name of related party	Maximum during the period	Ending balance	Repayment		Collateral	Difference between terms and conditions offered to the accounts and to the general public
				On-schedule	Overdue		
Employee consumer loans	20	8,353	6,530	6,530	-	Unsecured lending	None
Mortgage	36	113,789	95,332	95,332	-	House	None
Others	1	2,567	2,382	2,382	-	Overdraft on the comprehensive deposits	None

For the six months periods ended June 30, 2010 and 2009, interest incomes resulting from the above loans were \$1,579 thousand and \$1,159 thousand, respectively.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## C. Deposits with affiliates

For the six months periods ended June 30, 2010 and 2009, deposits with affiliates and related interest income were as follows:

		<b>2010</b>	
	<b>Balance</b>	<b>Interest rate</b>	<b>Interest income</b>
SCB New York	\$ 1,273,781	0.27~0.40	137
SCB HK	620,741	0.01~1.17	159
Others	<u>221,656</u>	0.13~4.80	<u>380</u>
	<u><b>\$ 2,116,178</b></u>		<u><b>676</b></u>
		<b>2009</b>	
	<b>Balance</b>	<b>Interest rate</b>	<b>Interest income</b>
SCB HK	227,549	-	-
Others	<u>149,427</u>	0.00~1.97	<u>180</u>
	<u><b>\$ 376,976</b></u>		<u><b>180</b></u>

## D. Loans and advances to affiliates

For the six months periods ended June 30, 2010 and 2009, loans and advances to affiliates and related interest income were as follows:

		<b>2010</b>	
	<b>Balance</b>	<b>Interest rate</b>	<b>Interest income</b>
SCFB Korea	\$ 26,465,265	0.20~1.00	89,761
SCB Taipei	18,549,626	0.03~0.78	3,529
SCB London	<u>2,581,977</u>	0.32~1.20	<u>4,100</u>
	<u><b>\$ 47,596,868</b></u>		<u><b>97,390</b></u>
		<b>2009</b>	
	<b>Balance</b>	<b>Interest rate</b>	<b>Interest income</b>
SCB London	\$ 45,041,383	1.10~5.88	495,087
SCB Taipei	22,357,009	0.10~3.30	222,793
SCB New York	8,202,614	1.58~1.70	57,040
Others	<u>3,276,297</u>	0.03~4.64	<u>99,290</u>
	<u><b>\$ 78,877,303</b></u>		<u><b>874,210</b></u>

As of June 30, 2010 and 2009, the interest receivables resulting from the above loans and advances to affiliates were \$43,658 thousand and \$382,449 thousand, respectively.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## E. Deposits by affiliates and loans from affiliates

For the six months periods ended June 30, 2010 and 2009, deposits by and loans from affiliates and related interest expenses were as follows:

	Balance	2010 Interest rate	Interest expense
SCB London	\$ 3,303,184	0.25~0.54	3,529
SCB Tokyo	4,169,435	0.13~4.80	22,630
SCB HK	6,454,943	0.01~1.17	3,213
SCB Taipei	6,454,943	0.10~1.12	4,100
SCB Germany	<u>206,285</u>	-	<u>-</u>
	<u><u>\$ 20,588,790</u></u>		<u><u>33,472</u></u>
	Balance	2009 Interest rate	Interest expense
SCB London	\$ 3,906,107	1.55	40,790
SCB Taipei	2,755,213	0.90~1.04	12,361
SCB Tokyo	10,827,451	0.35~0.36	8,953
SCB HK	6,562,091	0.35	18,400
Others	<u>345,985</u>	0.00~0.58	<u>112</u>
	<u><u>\$ 24,396,847</u></u>		<u><u>80,616</u></u>

As of June 30, 2010 and 2009, the interest payables resulting from the above deposits by and loans from affiliates were \$2,313 thousand and \$27,898 thousand, respectively.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## F. Derivative transactions

As of June 30, 2010 and 2009, derivative transactions engaged with affiliated parties were as follows:

Name	Contracts	Contract duration period	2010		Balance sheet Account	Balance
			Notional	Unrealized gain (loss) in current period		
SCB London	Forward contract	2010.7.1~2013.4.24	\$ 53,393,430	1,710,107	Financial assets at fair value through profit or loss	2,153,227
					Financial liabilities at fair value through profit or loss	(443,120)
	Cross currency swap	2010.12.15~2012.10.3	37,813,458	743,635	Financial assets at fair value through profit or loss	1,398,508
					Financial liabilities at fair value through profit or loss	(654,873)
	Interest rate derivative	2010.7.2~2011.8.19	1,065,066	(64,178)	Financial assets at fair value through profit or loss	48
					Financial liabilities at fair value through profit or loss	(64,226)
Interest rate swap	2010.8.20~2013.9.5	35,663,559	120,668	Financial assets at fair value through profit or loss	482,987	
				Financial liabilities at fair value through profit or loss	(362,319)	
Option contract	2010.7.1~2012.5.29	40,911,727	(249,881)	Financial assets at fair value through profit or loss	177,414	
				Financial liabilities at fair value through profit or loss	(427,295)	
SCB Singapore	Forward contract	2010.7.1~2010.12.29	76,590,758	955,885	Financial assets at fair value through profit or loss	1,548,969
					Financial liabilities at fair value through profit or loss	(593,083)
SCB New York	Forward contract	2010.7.1~2011.3.28	797,679	(7,501)	Financial assets at fair value through profit or loss	920
					Financial assets at fair value through profit or loss	(8,421)

(Continued)



## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

Name	Contracts	Contract duration period	2009		Balance sheet Account	Balance
			Notional	Unrealized gain (loss) in current period		
SCB London	Forward contract	2009.7.1~2009.12.31	\$ 5,014,185	(43,727)	Financial assets at fair value through profit or loss	2,878
					Financial liabilities at fair value through profit or loss	(46,605)
	Cross currency swap	2009.7.16~2012.10.3	69,623,187	390,875	Financial assets at fair value through profit or loss	1,756,805
					Financial liabilities at fair value through profit or loss	(1,365,930)
	Commodity swap	2009.7.7~2011.1.14	19,436,623	(322,739)	Financial assets at fair value through profit or loss	710,393
					Financial liabilities at fair value through profit or loss	(1,033,132)
	Interest rate derivative	2009.7.1~2013.4.24	80,864,488	1,857,151	Financial assets at fair value through profit or loss	2,543,781
Financial liabilities at fair value through profit or loss					(686,630)	
Interest rate swap	2009.7.13~2014.2.11	130,048,955	(3,166,212)	Financial assets at fair value through profit or loss	1,562,127	
				Financial liabilities at fair value through profit or loss	(4,728,339)	
Option contract	2009.7.1~2010.7.30	87,193,704	199,383	Financial assets at fair value through profit or loss	871,448	
				Financial liabilities at fair value through profit or loss	(672,065)	
SCB Singapore	Forward contract	2009.7.1~2010.2.23	51,993,506	1,010,953	Financial assets at fair value through profit or loss	1,307,748
					Financial liabilities at fair value through profit or loss	(296,795)
	Cross currency swap	2009.8.29~2009.9.21	1,599,557	101,024	Financial assets at fair value through profit or loss	101,024
Interest rate swap	2009.12.17~2011.12.19	1,542,091	(11,763)	Financial assets at fair value through profit or loss	11,865	
				Financial liabilities at fair value through profit or loss	(23,628)	
SCB New York	Forward contract	2009.7.1~2010.1.27	48,015	300	Financial assets at fair value through profit or loss	308
					Financial liabilities at fair value through profit or loss	(8)
SCB Taipei	Forward contract	2009.9.24~2009.9.28	2,763,214	2,349	Financial assets at fair value through profit or loss	6,361
					Financial liabilities at fair value through profit or loss	(4,012)

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

- G. As of June 30, 2010 and 2009, the fair values of financial debentures acquired from affiliates were as follows:

Name	Fair value	
	2010	2009
SCB HK	\$ 4,876,709	3,916,912

- H. As of June 30, 2010 and 2009, financial debenture payables deriving from the issuance of financial debentures to affiliates were as follows:

Name	Bond (note)	2010	2009
SCB	95-1	\$ -	4,800,000
SCB	98-2	4,841,207	-
SC APR	97-1	-	4,921,569
SC APR	98-3	4,841,207	-

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 Agency. The contracted selling price was \$42,500 thousand, and the gain on disposal was \$23,130 thousand after deducting net book value and the related expenses. The Bank transferred the ownership in January 2005. As of June 30, 2010 and 2009, unrealized gains from affiliated-company transactions amounted to \$22,685 thousand and \$22,735 thousand, respectively, recorded as other liabilities.
- J. For the six months periods ended June 30, 2010 and 2009, head office administration fees and other expenses arising from professional technical support were \$754,269 thousand and \$351,735 thousand, respectively. As of June 30, 2010 and 2009, head office administration fees and other expenses arising from professional technical support payable to SCB were \$997,078 thousand and \$954,038 thousand, respectively, recorded under accounts payables—related parties. Moreover, for the six months periods ended June 30, 2010 and 2009, the royalty expenses for obtaining the right to use intellectual property of SC PLC Group amounted to \$44,130 thousand and \$34,868 thousand, respectively. As of June 30, 2010 and 2009, the royalty expenses payable to SCB were \$116,374 thousand and \$81,151 thousand, respectively, recorded under accounts payables.
- K. For the six months periods ended June 30, 2010 and 2009, the related cost of the Executive Share Option Scheme amounted to \$55,244 thousand and \$52,255 thousand, respectively. As of June 30, 2010 and 2009, accounts payable to SCB for the share-based payment scheme costs amounted to \$203,651 thousand and \$177,308 thousand, respectively, recorded as accounts payables.

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

- L. For the six months periods ended June 30, 2010 and 2009, expenses resulting from operating activities with affiliates were as follows:

	2010	2009
Staff costs:		
SCB New York	\$ 6,281	1,620
SCB London	-	9,819
SCB HK	3,132	8,065
SCB Singapore	676	2,812
Others	367	411
	<u>\$ 10,456</u>	<u>22,727</u>
Information technology service fees:		
SCB New York	\$ 29,512	38,890
Scope International Private Ltd.	15,646	19,932
SCB Singapore	10,012	991
Scope International (M) Sdn. Bhd	14,020	-
Others	507	5,130
	<u>\$ 69,697</u>	<u>64,943</u>

- M. As of June 30, 2010 and 2009, the deposits of Standard Chartered Life Insurance Agency Co., Ltd. were \$326,107 thousand and \$190,500 thousand, respectively, and the interest expenses were \$302 thousand and \$743 thousand, respectively. The deposits of Taiwan Standard Chartered Insurance Agency Co., Ltd. were \$24,097 thousand and \$16,543 thousand, respectively, and the interest expenses were \$24 thousand and \$44 thousand, respectively.
- N. As of June 30, 2010, the accounts receivable and related service income that the Bank supported Standard Chartered Life Insurance Agency Co., Ltd. for its sales were \$88,002 thousand and \$268,402 thousand; the accounts receivable and related service income that the Bank supported Taiwan Standard Chartered Insurance Agency Co., Ltd. for its sales were \$4,001 thousand and \$13,096 thousand, respectively.
- O. The Bank has signed rental contracts with Standard Chartered Life Insurance Agency Co., Ltd. Rental amount and collection method are consistent with arm's-length transaction terms.

## (6) Pledged Assets

Pledged assets	Pledged for	Amount	
		June 30, 2010	June 30, 2009
Bonds (recorded as available-for-sale financial assets as of June 30, 2010 and 2009)	Provisional seizure	\$ 287,800	385,800
	Securitization of mortgage loans	700,000	700,000
Total		<u>\$ 987,800</u>	<u>1,085,800</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	
		June 30, 2010	June 30, 2009
Bonds and negotiable certificates of deposits (recorded as available-for-sale financial assets as of June 30, 2010 and 2009)	Reserve for trust funds	\$ 200,000	1,200,000
	Reserve for indemnity obligations	50,000	50,000
	Security deposits for performance	-	300,000
	Security deposits for bill trading operations	50,000	100,000
	Security deposits for futures trading	35,000	20,000
	Security deposits for security brokerage	190,000	240,000
	Bid of bonds	<u>10,000</u>	<u>-</u>
		<u>535,000</u>	<u>1,910,000</u>
Certificates of deposits (recorded as refundable deposits as of June 30, 2010 and 2009)	Clearing account reserve	100,000	100,000
	Security deposits for bond proprietary trading	10,000	10,000
	Security deposits for bond underwriting	-	40,000
		<u>110,000</u>	<u>150,000</u>
Total		<u>\$ 645,000</u>	<u>2,060,000</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 and underwriting are provided by deposits placed in the OTC Securities Exchange for the Bank's government bond trading and underwriting business. Furthermore, reserve for trading losses has been set to conform with securities regulations.
- 7) The cash deposited in the clearing account reserve was both \$40,000 thousand as of June 30, 2010 and 2009.
- 8) Security deposits for futures trading are operating bonds provided by deposits placed in the special account with the financial institution designated by the Financial Supervisory Commission.
- 9) Security deposits for security brokerage are operating bonds by deposits placed for operating business of securities commission agency, brokerage, agency, and other relevant businesses approved by the Competent Authority.
- 10) Bid of bonds is provided by deposits placed for bidding government bonds.

**(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 \$61,561 thousand were both recognized as fee income for the six months periods ended June 30, 2010 and 2009, respectively, and the remaining amount was recorded as deferred revenue under other liabilities.

2) Significant purchase agreements

As of June 30, 2010 and 2009, the Bank had construction agreements for expansion and renovation of buildings amounting to \$677,614 thousand and \$821,520 thousand, respectively. The unpaid amounts of the aforementioned agreements were \$177,349 thousand and \$196,623 thousand, respectively.

3) Operating leases

The Bank has entered into certain operating leases for its branches. As of June 30, 2010, estimated minimum future lease payments were as follows:

<b>Fiscal year</b>	<b>Amount</b>
for the second half of 2010	\$ 222,889
2011	373,438
2012	336,146
2013	332,178
2014 and thereafter	<u>254,057</u>
	<u><u>\$ 1,518,708</u></u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## 4) Others

	June 30, 2010	June 30, 2009
Consignment collection for others	\$ 10,025,393	11,496,307
Traveler's checks held on consignment for sale	108,867	92,086
Securities, consignments and goods in custody	1,280,489,147	991,023,082
Trust assets	<u>145,854,134</u>	<u>135,202,674</u>
	<u>\$ 1,436,477,541</u>	<u>1,137,814,149</u>
Unused lines of credit	<u>\$ 17,463,338</u>	<u>14,512,320</u>
Other guarantees	<u>\$ 7,951,686</u>	<u>12,397,993</u>
Letters of credit issued	<u>\$ 4,644,963</u>	<u>2,746,275</u>
Securities sold under repurchase agreements	<u>\$ -</u>	<u>1,030,856</u>

- 5) For the six months periods ended June 30, 2010 and 2009, disclosures required by Article 17 of the Trust Enterprise Law on trust balance sheets, trust income statements, and trust assets were as follows:

## Trust Balance Sheet

June 30, 2010

Trust assets		Trust liabilities	
Bank deposits	\$ 22,121	Accounts payables	\$ 17
Short-term investments	124,960,164	Taxes payables	12
Other marketable securities	16,856,219	Payables for securities under custody	3,949,669
Accounts receivables	118	Trust capital	141,847,645
Securities under custody	3,949,669	All reserves and retained earnings	56,791
Other assets	65,843		
Total trust assets	<u>\$ 145,854,134</u>	Total trust liabilities	<u>\$ 145,854,134</u>

## Trust Balance Sheet

June 30, 2009

Trust assets		Trust liabilities	
Bank deposits	\$ 31,638	Accounts payables	\$ 18
Short-term investments	129,352,890	Taxes payables	15
Accounts receivables	154	Payables for securities under custody	5,817,992
Securities under custody	<u>5,817,992</u>	Trust capital	<u>129,384,649</u>
Total trust assets	<u>\$ 135,202,674</u>	Total trust liabilities	<u>\$ 135,202,674</u>

(Continued)

## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## Trust Income Statements

	2010	2009
Trust revenue:		
Interest revenue	\$ 50	224
Common stock cash dividends	547	639
Realized gain on investments	1,141	43
Unrealized gain on investments	-	153,540
Exchange gain	-	128
Gain on trading of assets	<u>49</u>	<u>-</u>
	<u>1,787</u>	<u>154,574</u>
Trust expenses:		
Management expenses	104	126
Service charges	489	10
Realized loss on investments	-	2,430
Unrealized loss on investments	<u>84,770</u>	<u>-</u>
	<u>85,363</u>	<u>2,566</u>
Net (loss) income before income tax	(83,576)	152,008
Income tax (benefit) expense	<u>(1)</u>	<u>13</u>
Net (loss) income after income tax	<u>\$ (83,575)</u>	<u>151,995</u>

## Schedules of investment for trust business

Investment items	June 30, 2010	June 30, 2009
Bank deposits	\$ 22,121	31,638
Short-term investments:		
Bonds	552,183	33,764,322
Common stock	3,390,803	3,384,041
Funds	121,017,178	92,204,527
Other securities	16,856,219	-
Accounts receivables	118	154
Securities under custody	3,949,669	5,817,992
Other assets	<u>65,843</u>	<u>-</u>
	<u>\$ 145,854,134</u>	<u>135,202,674</u>

Foreign currency trust business engaged in by the Offshore Banking Unit (OBU) as of June 30, 2010 and 2009, was included in the trust balance sheets and schedules of investment for trust business.

- (8) **Significant Disaster Loss: none.**
- (9) **Significant 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 six months periods ended June 30, 2010 and 2009, is as follows:

Account	Function	2010			2009		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Staff costs:							
Salaries		-	2,395,324	2,395,324	-	2,247,851	2,247,851
Labor and health insurance		-	149,055	149,055	-	152,506	152,506
Pension		-	207,827	207,827	-	228,943	228,943
Other		-	134,759	134,759	-	198,091	198,091
Depreciation		-	276,231	276,231	-	256,018	256,018
Amortization		-	43,016	43,016	-	46,667	46,667

## 2) Reclassification

For the six months period ended June 30, 2009, certain amounts have been reclassified and presented to conform to the financial statements for the six months period ended June 30, 2010. The financial statements are not significantly affected by such reclassifications.

- 3) The Bank acquired ATIC on December 27, 2008 for its operation and specific assets and liabilities. The difference between the compensation amount paid by the Central Deposit Insurance Corporation and Resolution Trust Corporation and the fair value for the acquired assets and liabilities is recognized as Goodwill. In addition, the Bank received the compensation of \$223,603 thousand and \$688 thousand from the Central Deposit Insurance Corporation and Resolution Trust Corporation for the six months period ended June 30, 2009. In accordance with SFAS No.25 "the accounting standards for business combination that use the purchase method", the finally recognized Goodwill is amounted to \$3,156,048 thousand.

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

## A. Major foreign currency positions

Currency	June 30, 2010		Currency	June 30, 2009	
	Original currency	NTD equivalent		Original currency	NTD equivalent
USD	\$ 54,303	1,752,609	USD	(20,880)	(685,072)
AUD	4,176	115,224	JPY	69,436	23,860
SGD	2,895	66,877	NZD	1,894	40,539
NZD	2,060	46,139	AUD	2,556	68,148
JPY	(152,429)	(55,496)	EUR	305	14,115

(Continued)



## STANDARD CHARTERED BANK (TAIWAN) LIMITED

## Notes to Financial Statements

## B. Profitability

Unit: %

Items		2010	2009
Return on assets (note 1)	Before income tax	0.45	(0.77)
	After income tax	0.22	(0.74)
Return on net equity (note 2)	Before income tax	7.87	(16.59)
	After income tax	3.78	(15.91)
Net profit ratio (note 3)		15.20	(57.60)

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

## 5) Capital adequacy

Capital adequacy ratios of the Bank are disclosed below:

Item		Period-end	June 30, 2010	December 31, 2009	June 30, 2009
Self-owned capital	Tier 1 Capital		29,508,263	26,239,195	18,989,326
	Tier 2 Capital		20,253,472	26,239,195	16,966,325
	Tier 3 Capital		-	-	-
	Total Self-owned Capital		49,761,735	52,478,390	35,955,651
Risk-weighted assets	Credit risk	Standardized approach	319,529,359	314,873,303	326,538,557
		Internal-rating-based approach	-	-	-
		Secularizations	-	-	-
	Operational risk	Basic indicator approach	33,762,611	34,866,993	34,866,993
		Standardized approach / alternative approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	43,757,136	31,688,991	28,619,758
		Internal model approach	-	-	-
Risk-weighted assets			397,049,106	381,429,287	390,025,308
Capital adequacy ratio			12.53 %	13.76 %	9.22 %
Tier 1 capital / risk-weighted assets			7.43 %	6.88 %	4.87 %
Tier 2 capital / risk-weighted assets			5.10 %	6.88 %	4.35 %
Tier 3 capital / risk-weighted assets			- %	- %	- %
Common stock / total assets			4.55 %	4.72 %	4.03 %
Leverage ratio			4.74 %	4.25 %	3.07 %

(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		June 30, 2010	December 31, 2009	June 30, 2009
	Self-owned capital	Tier 1 Capital		29,515,302	26,423,446
	Tier 2 Capital		20,260,511	26,423,446	17,078,231
	Tier 3 Capital		-	-	-
	Total Self-owned Capital		49,775,813	52,846,892	36,179,463
Risk-weighted assets	Credit risk	Standardized approach	319,600,208	314,952,176	326,584,580
		Internal-rating-based approach	-	-	-
		Secularizations	-	-	-
	Operational risk	Basic indicator approach	33,678,309	35,035,413	35,035,413
		Standardized approach / alternative approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	43,757,136	31,688,991	28,619,758
		Internal model approach	-	-	-
		Risk-weighted assets		397,035,653	381,676,580
Capital adequacy ratio			12.54 %	13.85 %	9.27 %
Tier 1 capital / risk-weighted assets			7.43 %	6.92 %	4.89 %
Tier 2 capital / risk-weighted assets			5.10 %	6.92 %	4.38 %
Tier 3 capital / risk-weighted assets			- %	- %	- %
Common stock / total assets			4.55 %	4.72 %	4.03 %
Leverage ratio			4.75 %	4.29 %	3.09 %

## (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:

Name of company which disposed property	Category of property	Book value	Transaction amount	Conditions of payment	Gain (loss) on disposal	Counter-party	Relationship with the Bank	Purpose of disposal	Reference for deciding price	Other required items
Standard Chartered Bank (Taiwan) Limited	Land and premises	\$ 779,803	\$ 845,000	Payment Received	\$ 47,164	L'Hotel de Chine Group	None	To make a profit	Arm's length transaction	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 of non-performing loans:

## a. Summary for sale of non-performing loans

Transaction date	Counterparty	Content	Book value	Price	Gain from sale	Attachment clause	Relationship
2010.5.7	Chinatrust Asset Management Co., Ltd	Corporate & Personal finance	-	70,342	70,342	None	Non-related party

## b. Information on individual NPL sales transactions of more than \$1 billion (exclusive of sales to related parties): None

## G. Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: none.

## H. 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 Agency Co., Ltd.	No. 85, Chung-Zeng Road, Hsinchu, Taiwan	Life insurance agent	100.00 %	7,354	(55,207)	300	-	300	100.00 %	-
Taiwan Standard Chartered Insurance Agency Co., Ltd.	No. 85, Chung-Zeng Road, Hsinchu, Taiwan	Property insurance agent	100.00 %	6,722	(1,009)	300	-	300	100.00 %	-
Paradigm Assets Management Co., Ltd.	19F., No. 123, Sec. 2, Chung-Hsiao East Road, Taipei, Taiwan	Securities investment trust	- %	-	-	-	-	-	- %	Note 1
Fubon Securities Co., Ltd.	6-7F., 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 %	-
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	3.03 %	-

(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	
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., Zhongshan 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	6 and B1F., 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 %	-

Note 1: The FSC approved the shares transferred on February 8, 2010.

B. Lending to other parties: none.

C. Guarantees and endorsements for other parties: none.

D. Information regarding securities held as of June 30, 2010: none.

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.

(Continued)

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

- 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**

In accordance with Article 25 of SFAS No. 23, since there is no significant change in the segment revenue composition, no financial information for each segment is required to be disclosed in preparing the interim financial statements.