

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the six months periods ended June 30, 2012 and 2011. 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Public 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 the six months periods ended June 30, 2012 and 2011, on which we have expressed an standard unqualified review opinion.

KPMG
August 30, 2012

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, 2012 and 2011
(Expressed in thousands of New Taiwan dollars, except for par value)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Change %</u>		<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Change %</u>
Assets				Liabilities and Stockholders' Equity			
11000	\$ 8,227,443	7,785,883	6	Liabilities :			
11500				21000	\$ 43,310,360	30,690,409	41
	69,246,194	76,633,693	(10)	22000			
12000					10,742,881	16,576,037	(35)
	37,748,715	28,257,104	34	23000	5,332,244	6,854,943	(22)
12500				23010	5,211,151	4,971,056	5
	10,746,723	2,068,587	420	23500	532,216,041	577,860,042	(8)
13000				24000	62,354,804	46,740,565	33
	39,225,132	31,217,853	26	25500	15,325,976	14,678,535	4
13500				29500	<u>2,272,384</u>	<u>3,349,348</u>	(32)
	352,199,753	354,310,288	(1)		<u>676,765,841</u>	<u>701,720,935</u>	(4)
14000				Total liabilities			
	189,125,601	229,483,299	(18)	Stockholders' Equity (notes 4(7), (16) and (19)):			
15000				31001			
	394,908	151,290	161		29,105,720	29,105,720	-
15500				31500	<u>5,786,031</u>	<u>5,786,031</u>	-
	733,454	472,803	55				
18500							
	5,726,456	6,306,715	(9)	32001	3,388,832	876,897	286
19000				32003	136,034	136,034	-
	3,289,448	3,377,882	(3)	32012	<u>3,680,978</u>	<u>6,164,038</u>	(40)
19500					<u>7,205,844</u>	<u>7,176,969</u>	-
	3,103,843	4,239,640	(27)				
				32503			
					239,413	243,384	(2)
				32523	773,112	529,936	46
				32525	135,795	70,415	93
				32544	<u>(244,086)</u>	<u>(328,353)</u>	26
					<u>904,234</u>	<u>515,382</u>	75
					43,001,829	42,584,102	1
				Total stockholders' equity			
				Commitments and contingent liabilities			
				(notes 4(11), (20), 6 and 7)			
Total Assets	<u><u>\$ 719,767,670</u></u>	<u><u>744,305,037</u></u>	(3)	Total Liabilities and Stockholders' Equity	<u><u>\$ 719,767,670</u></u>	<u><u>744,305,037</u></u>	(3)

See accompanying notes to the financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Income

For the six months periods ended June 30, 2012 and 2011
 (expressed in thousands of New Taiwan dollars, except for earnings per share)

	June 30, 2012	June 30, 2011	Change %
41000 Interest income (notes 4(3) and (14) and 5)	\$ 7,714,032	6,500,094	19
51000 Less: Interest expenses (note 5)	<u>2,687,271</u>	<u>2,232,565</u>	20
Net interest income	5,026,761	4,267,529	18
Other operating income:			
49100 Fees and commission income, net (note 7)	1,332,903	2,446,045	(46)
49200 Gain on financial instruments at fair value through profit or loss (notes 4(3), (20) and 5)	659,286	359,383	83
49300 Realized (loss) gain on available-for-sale financial assets (note 4(7))	(9,976)	590	(1,791)
49500 Investment income from interest in associates under equity method (note 4(8))	115,329	74,598	55
49600 Foreign exchange gain (loss), net	425,666	297,022	43
49700 Impairment loss on assets, net (notes 4(7) and (8))	(61,041)	(197,987)	69
49821 Gain on sale of non-performing loans (note 11)	357,150	838,262	(57)
49863 Net gain on disposal of property (note 11)	231,322	1,015,466	(77)
49800 Other non-interest income for sundries, net (notes 4(8), (11) and (15) and 5)	<u>58,551</u>	<u>210,572</u>	(72)
Operating income	<u>8,135,951</u>	<u>9,311,480</u>	(13)
51500 Bad debt expenses (gain on reversal) (notes 4(5) and (6) and 5)	<u>404,947</u>	<u>(3,311,033)</u>	112
Operating expenses:			
58500 Staff costs (notes 4(16) and (17), 5 and 10(1))	2,795,099	2,935,185	(5)
59000 Depreciation and amortization expenses (notes 4(9), (10) and 10(1))	208,496	316,701	(34)
59500 General and administrative expenses (notes 5 and 7)	<u>2,022,420</u>	<u>2,171,741</u>	(7)
	<u>5,026,015</u>	<u>5,423,627</u>	(7)
61001 Profit from continuing operations before income tax	2,704,989	7,198,886	(62)
63003 Income tax expense (note 4(18))	<u>519,538</u>	<u>1,035,053</u>	(50)
69000 Net income	\$ <u><u>2,185,451</u></u>	<u><u>6,163,833</u></u>	(65)
	Before tax	After tax	
	Before tax	After tax	
69500 Basic earnings per share (note 4(19))	\$ <u><u>0.93</u></u>	<u><u>0.75</u></u>	<u><u>2.47</u></u>
	<u><u>2.12</u></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, 2012 and 2011
(expressed in thousands of New Taiwan dollars)

	Retained earnings					Others				Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated earnings	Unrealized revaluation increments on property and equipment	Unrealized gain on available-for-sale financial assets	Unrealized gain on cash flow hedge	Net loss on unrecognized pension cost	
Balance as of January 1, 2011	\$ 29,105,720	5,786,031	-	-	2,922,991	363,949	373,167	66,283	(328,353)	38,289,788
Net gain for the six months period ended June 30, 2011	-	-	-	-	6,163,833	-	-	-	-	6,163,833
Appropriation of retained earnings:										
Legal reserve (note 4(19))	-	-	876,897	-	(876,897)	-	-	-	-	-
Cash dividends (note 4(19))	-	-	-	-	(2,045,889)	-	-	-	-	(2,045,889)
Conversion from default loss reserve to special reserve	-	-	-	136,034	-	-	-	-	-	136,034
Movement of unrealized revaluation increments on property and equipment	-	-	-	-	-	(120,565)	-	-	-	(120,565)
Movement of unrealized gain on available-for-sale financial assets (note 4(7))	-	-	-	-	-	-	156,769	-	-	156,769
Movement of unrealized gain on cash flow hedge (note 4(20))	-	-	-	-	-	-	-	4,132	-	4,132
Balance as of June 30, 2011	\$ 29,105,720	5,786,031	876,897	136,034	6,164,038	243,384	529,936	70,415	(328,353)	42,584,102
Balance as of January 1, 2012	\$ 29,105,720	5,786,031	876,897	136,034	8,373,320	239,413	772,342	190,367	(244,086)	45,236,038
Net gain for the six months period ended June 30, 2012	-	-	-	-	2,185,451	-	-	-	-	2,185,451
Appropriation of retained earnings (note):										
Legal reserve (note 4(19))	-	-	2,511,935	-	(2,511,935)	-	-	-	-	-
Cash dividends (note 4(19))	-	-	-	-	(4,365,858)	-	-	-	-	(4,365,858)
Movement of unrealized gain on available-for-sale financial assets (note 4(7))	-	-	-	-	-	-	770	-	-	770
Movement of unrealized gain on cash flow hedge (note 4(20))	-	-	-	-	-	-	-	(54,572)	-	(54,572)
Balance as of June 30, 2012	\$ 29,105,720	5,786,031	3,388,832	136,034	3,680,978	239,413	773,112	135,795	(244,086)	43,001,829

Note: The employee bonus was recognized as operating expenses — staff costs in statement income, not as earning distribution.

See accompanying notes to the financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Cash Flows

For the six months periods ended June 30, 2012 and 2011
(expressed in thousands of New Taiwan dollars)

	June 30, 2012	June 30, 2011
Cash flows from operating activities:		
Net income	\$ 2,185,451	6,163,833
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expenses	193,763	276,452
Amortization expenses	14,733	40,249
Provision (reversal of) for bad debt expenses	404,947	(3,311,033)
Reserves	28	385
Investment income from interest in associates under equity method	(115,329)	(74,598)
Investment income from financial assets carried at cost	(1,408)	(12,421)
Impairment loss	61,041	197,987
Gain on disposal of non-performing loans	(357,150)	(838,262)
Gain on disposal and obsolescence of property and equipment, intangible assets and other assets, net	(231,322)	(1,015,466)
Realized deferred revenue	(61,561)	(61,561)
Increase in realized gain on inter-affiliate transactions	-	(45)
Net increase (decrease) in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	3,118,976	148,866
Increase in bills and bonds investments under reverse sell agreements	(2,290,309)	(2,068,587)
Increase in accounts receivables	(4,782,610)	(147,291)
Decrease in deferred income tax assets	306,618	995,604
Decrease in other financial assets	-	33,671
Decrease in other assets	495,386	91,088
Decrease in financial liabilities at fair value through profit or loss	(4,120,474)	(3,225,269)
Increase in accounts payables	439,054	120,502
Increase in accounts payables—related parties	926,259	916,447
Increase in other financial liabilities	5,169,175	271,095
Increase in other liabilities	225,253	522,124
Net cash provided by (used in) operating activities	1,580,521	(976,230)
Cash flows from investing activities:		
Decrease in balance at Central Bank and loans and advances to banks	5,152,347	23,018,565
Increase in loans and advances to customers	(6,532,524)	(10,818,616)
Decrease (increase) in available-for-sale financial assets	24,116,036	(51,236,818)
Acquisition of property, equipment and intangible assets	(18,651)	(54,727)
Proceeds from disposal of property, equipment and other assets	521,300	1,577,586
Proceeds from the capital reduction on financial assets carried at cost	1,408	-
Proceeds from disposal of non-performing loans	405,423	1,043,606
Net cash provided by (used in) investing activities	23,645,339	(36,470,404)
Cash flows from financing activities:		
Increase in deposits by Central Bank and other banks	24,919,971	20,043,050
Decrease in deposits and remittances	(63,902,183)	(9,814,359)
Increase in financial debentures payable	14,880,118	27,500,165
Distribute Cash dividends	(4,365,858)	-
Net cash (used in) provided by financing activities	(28,467,952)	37,728,856
Net (decrease) increase in cash and cash equivalents	(3,242,092)	282,222
Cash and cash equivalents at beginning of period	11,469,535	7,503,661
Cash and cash equivalents at end of period	\$ 8,227,443	7,785,883
Supplemental disclosure of cash flow information:		
Cash payments of interest, except capital interest	\$ 2,549,003	1,810,587
Cash payments of income tax	\$ 108,289	68,384
Investing and financing activities not affecting cash flows:		
Unrealized gain on available-for-sale financial assets	\$ 770	156,769

See accompanying notes to the financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

June 30, 2012 and 2011

(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 July 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.

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

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, 2012 and 2011, the numbers of employees employed by the Bank were 3,937 and 3,826, 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 the Financial Statements**

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Public 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 the 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 as 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 the 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 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 the 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 fair 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 or loss shall not be reversed.
- c) Financial assets classified as available-for-sale upon initial recognition that would have met the definition of loans and receivables shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

For any previous gain or loss on a financial asset that has been recognized directly in equity, if the financial asset has a fixed maturity date, the gain or loss should be amortized to current profit or loss over the remaining 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 or loss, 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. 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. 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.

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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED**Notes to the 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, willing parties. The best evidence of fair value is quoted prices in an active market. If a quoted market price is not available, fair value 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 offset 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 the 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 sell agreements

Financial instruments sold (purchased) under repurchase or reverse sell 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) 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 less than a year is called short-term credit; credit maturing more than one year but less than seven years is called medium-term credit; and credit maturing more than seven years is called long-term credit. Loans with collateral, pledged assets 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 Financial Supervisory Commission ("FSC") 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, having one of the following characteristics shall be written off:

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

(Continued)

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

However, when requested by the competent authority or any financial examination agency (organization), loans must be immediately written off, a report must be made to the subsequent board meeting, and the supervisors must be notified for acknowledgement. Collections after write-off shall be reversed from the allowance for bad debt expense.

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

The third amendment of SFAS No. 34 was effective January 1, 2011; the carrying value of loans and receivables within applicable scope as of December 31, 2010 should be measured at amortized cost in which SFAS No. 34 was initially applied. Under the definition of loans and receivables in SFAS No. 34, the objective evidence should be identified first to reveal impairment existing for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, it should be further included in a set of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not required to collectively assess because impairment is or continued to be recognized.

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

11) 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 or 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED**Notes to the 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.

12) Other financial assets

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 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. 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.

13) Property and equipment, and related depreciation

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

The Bank evaluates the estimated 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. 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 the 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

14) 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.

15) 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.

16) 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.

17) 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 has indefinite lives or is 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 the Financial Statements**

18) 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.

19) Other liabilities – 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 thousand, 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 thousand, 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".

Effective from January 11, 2011, the Financial Supervisory Commission ("FSC") revoked the rules regarding provision for trading losses reserve, default losses reserve and related deferred tax item for securities firms contained in the RGSF according to FSC Jin-Kuan-Cheng-Chuan No. 09900738571. As of December 31, 2010, the amount of trading losses reserve and default losses reserve which securities firms and future commission merchants had made provision for should be reclassified as special reserve. The special reserve can only be used to offset a deficit or when special reserve reaches 50% of total paid-in capital, of which 50% can be capitalized.

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".

20) Pension

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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED**Notes to the 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.

21) 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 are 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.

22) 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-052 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.

23) Revenue recognition

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

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

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

Fees and commissions are generally recognized on an accrual basis when the service has been provided or significant act performed.

24) Income tax

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

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

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

The Income Basic Tax Act was announced and became effective on January 1, 2006. The calculation of the Bank's basic income is the sum of the taxable income as defined in accordance with the Income Tax Act and the provisions or tax benefits that are included in the Income Tax Act and other laws. The amount of basic tax of the Bank is the amount of basic income as calculated in accordance with the preceding rules, with a deduction of NT\$2,000 thousand, and then multiplied by the tax rate (10%) 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.

25) Earnings per share of common stock

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

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

26) Operating segment

The Bank disclosed operating segment information in the consolidated financial statement; therefore, it did not disclose the information in the separate individual financial statement.

(3) Changes in Accounting Principle

Effective January 1, 2011, the Bank has newly adopted the third amended SFAS No. 34 "Accounting for the Financial Instruments: Recognition and Measurement." In accordance with the revised SFAS No.34, initial loans and receivables are applied to the statement of recognition, subsequent evaluation and impairments to loans and receivables. In addition, trouble debt restructuring and modification of debt agreements are also accounted for in accordance with revised SFAS No.34 commencing from January 1, 2011. The adoption of this accounting standard didn't have any significantly impact for the six months period ended June 30, 2011.

Effective January 1, 2011, the Bank has adopted the newly issued SFAS No.41, "Operating Segments." In accordance with SFAS No.41, information is disclosed to enable users of the Bank's financial statements to evaluate the nature and financial effects of the business activities in which the Bank engages, and the economic environment in which it operates. Accordingly, the Bank determines and presents operating segments based on the information that is internally provided to the major operating decision maker. In addition, the Bank disclosed operating segment information in the consolidated financial statement; therefore, it did not disclose the information in the individual financial statement. This new accounting standard superseded SFAS No. 20 "Segment Reporting." The adoption of this accounting standard did not have any cumulative effect for the six months period ended June 30, 2011.

(4) Disclosures of Significant Accounts

1) Cash and cash equivalents

As of June 30, 2012 and 2011, cash and cash equivalents were as follows:

	June 30, 2012	June 30, 2011
Cash on hand	\$ 4,694,710	4,301,061
Deposits with other banks	1,436,315	572,266
Deposits with affiliates	2,096,418	2,912,556
	\$ 8,227,443	7,785,883

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

As of June 30, 2012 and 2011, the balances at the Central Bank and loans and advances to banks were as follows:

	June 30, 2012	June 30, 2011
Balances at Central Bank:		
Reserve for deposits – checking account	\$ 9,825,725	11,008,431
Reserve for deposits – demand account	15,677,028	20,082,341
Reserve for deposits – foreign currency	179,252	123,490
Reserve for deposits – settlement accounts	<u>812,656</u>	<u>594,441</u>
	<u>26,494,661</u>	<u>31,808,703</u>
Loans and advances to other banks	16,388,777	16,585,731
Loans and advances to affiliates	<u>26,362,756</u>	<u>28,239,259</u>
	<u>42,751,533</u>	<u>44,824,990</u>
	<u>\$ 69,246,194</u>	<u>76,633,693</u>

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

No interest is accrued on the checking accounts and the foreign currency accounts. Balances can be withdrawn on demand. Demand accounts accrue interests, other than the monthly adjustments to the account, no withdrawal is allowed.

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

As of June 30, 2012 and 2011, financial assets and liabilities at fair value through profit and loss were as follows:

	June 30, 2012	June 30, 2011
Trading financial assets:		
Debt instruments	\$ 25,830,001	11,018,140
Derivatives	<u>11,918,714</u>	<u>17,238,964</u>
	<u>\$ 37,748,715</u>	<u>28,257,104</u>
Trading financial liabilities:		
Debt instruments	\$ -	883,536
Derivatives	<u>10,742,881</u>	<u>15,692,501</u>
	<u>\$ 10,742,881</u>	<u>16,576,037</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the six months periods ended June 30, 2012 and 2011, net gain on financial assets and liabilities at fair value through profit or loss recognized by the Bank were as follows:

	June 30, 2012	June 30, 2011
Net gain on both valuation and disposal of trading financial assets and liabilities:		
Debt instruments	\$ 44,398	30,396
Derivatives	614,888	328,987
	<u>\$ 659,286</u>	<u>359,383</u>
Interest income	<u>\$ 112,685</u>	<u>46,324</u>

4) Bills and bonds investments under reverse sell agreements

As of June 30, 2012 and 2011, the book values of bills and bonds investments under reverse sell agreements were as follows:

	June 30, 2012	June 30, 2011
Bills and bonds investments under reverse sell agreements	<u>\$ 10,746,723</u>	<u>2,068,587</u>

As of June 30, 2012 and 2011, the settlement date for bills and bonds investments under reverse sell agreements July 10, 2012 and July 14, 2011; interest rates of the aforementioned reverse sell agreements were 0.77% and 0.55%~0.60%, respectively. The contracted prices for the aforementioned reverse sell agreements were \$10,748,560 thousand and \$2,068,700 thousand, respectively.

5) Accounts receivables, net

As of June 30, 2012 and 2011, details of accounts receivables were as follows:

	June 30, 2012	June 30, 2011
Accounts receivables	\$ 3,040,145	2,408,369
Acceptance receivables	632,866	765,763
Factoring loan receivable, without recourse	27,786,879	15,411,756
Interest receivables	1,790,017	1,500,541
Credit card receivables	5,746,065	6,124,070
Compensation receivables	-	1,402,574
Tax refund receivables	115,817	176,086
Accounts receivables – related parties	352,169	4,328,733
Others	164,438	474,613
Subtotal	<u>39,628,396</u>	<u>32,592,505</u>
Less: allowance for doubtful accounts – accounts receivables	403,264	591,866
allowance for doubtful accounts – compensation receivable	-	782,786
Total	<u>\$ 39,225,132</u>	<u>31,217,853</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

6) Loans and advances to customers

As of June 30, 2012 and 2011, details of loans and advances to customers were as follows:

	June 30, 2012	June 30, 2011
Negotiations and discounts	\$ 4,167,242	4,989,907
Short-term unsecured loans and overdrafts	52,561,885	27,099,351
Short-term secured loans	5,074,215	12,377,551
Medium-term unsecured loans	67,064,847	56,270,763
Medium-term secured loans	3,327,001	4,781,747
Long-term unsecured loans	6,499,800	6,866,924
Long-term secured loans	216,301,671	245,596,019
Non-accrual loans	<u>1,359,092</u>	<u>1,041,590</u>
Subtotal	356,355,753	359,023,852
Adjustment loan of discount/premium	193,788	(193,187)
Less: allowance for doubtful accounts	<u>4,349,788</u>	<u>4,520,377</u>
Total	<u>\$ 352,199,753</u>	<u>354,310,288</u>

As of June 30, 2012 and 2011, the Bank's long-term loan with floating rate mentioned above has adopted cash flow hedge in order to reduce the impact of cash flow that was affected by interest-rate fluctuation.

Allowance for 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.

For the six months periods ended June 30, 2012 and 2011, the movements of allowance for doubtful accounts were as follows:

	June 30, 2012		
	Specific provision	General provision	Total
Beginning balance	\$ 2,338,688	2,363,885	4,702,573
Add: provision for doubtful accounts	430,780	6,537	437,317
recovery from written-off loans	476,160	-	476,160
Less: write-off	736,651	-	736,651
exchange rate movements and others	<u>142,525</u>	<u>(16,178)</u>	<u>126,347</u>
Ending balance	<u>\$ 2,366,452</u>	<u>2,386,600</u>	<u>4,753,052</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

	June 30, 2011		
	Specific provision	General provision	Total
Beginning balance	\$ 6,353,546	3,170,518	9,524,064
Add: reversal of provision for doubtful accounts	(3,076,721)	(233,478)	(3,310,199)
recovery from written-off loans	682,662	-	682,662
Less: write-off	646,582	-	646,582
exchange rate movements and others	354,916	-	354,916
Transfer in and transfer out	457,482	(457,482)	-
Ending balance	<u>\$ 3,415,471</u>	<u>2,479,558</u>	<u>5,895,029</u>

Loans and advances and account receivables should be included in the total amounts of assessment of impairment to be determined its allowance for credit losses, which were as follows:

Items		June 30, 2012	
		Loans and advances and account receivables	Provision
With the objective evidence of impairment	Individual assessment of impairment	\$ 13,740,279	2,366,452
Without the objective evidence of impairment	Portfolio assessment of impairment	382,243,870	2,386,600
		<u>\$ 395,984,149</u>	<u>4,753,052</u>

Items		June 30, 2011	
		Loans and advances and account receivables	Provision
With the objective evidence of impairment	Individual assessment of impairment	\$ 15,094,027	3,415,471
Without the objective evidence of impairment	Portfolio assessment of impairment	376,522,330	2,479,558
		<u>\$ 391,616,357</u>	<u>5,895,029</u>

As of June 30, 2012, the allowance for doubtful accounts was \$4,753,052 thousand. This amount consists of loans and advances to customers of \$4,349,788 thousand and accounts receivables of \$403,264 thousand. As of June 30, 2011, the allowance for doubtful accounts was \$5,895,029 thousand. This amount consisted of loans and advances to customers of \$4,520,377 thousand and accounts receivables (including compensation receivable) of \$1,374,652 thousand.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the six months period ended June 30, 2012, bad debt expense was \$404,947 thousand. This amount consists of provision for bad debt expense for accounts receivables and loans and advances to customers of \$437,317 thousand and reversal of provision for guarantee amounting to \$32,370 thousand. For the six months period ended June 30, 2011, the Bank's gain on reversal of bad debt expense was \$3,311,033 thousand. This amount consists of reversal of provisions for accounts receivables and the reversals of loans and advances to customers of \$3,310,199 thousand, and the reversal of provision for guarantee amounting to \$834 thousand.

For the six months period ended June 30, 2011, the Bank made an additional provision of allowance for doubtful account for mortgage loan and home renovation to up to 0.6%, amounted \$858,478 thousand, in accordance with the rule set by FSC Jin-Kuan-Yin-Guo No. 10020003841 on June 27, 2011.

As of June 30, 2012 and 2011, the amounts of outstanding loans with interest charges suspended amounted to \$1,359,092 thousand and \$1,041,590 thousand, respectively. The amounts of interest not accrued derived from the aforementioned loans were \$41,307 thousand and \$50,185 thousand, respectively.

As of June 30, 2012 and 2011, the amounts of loans and advances to customers, which were classified by geographical region were as follows:

	June 30, 2012	June 30, 2011
Domestic	\$ 310,514,749	340,928,170
Overseas	45,841,004	18,095,682
Total	<u>\$ 356,355,753</u>	<u>359,023,852</u>

As of June 30, 2012 and 2011, information regarding asset quality of loans and advances to customers was as follows:

Product		Period	June 30, 2012					
			Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio	
Wholesale Banking	Secured		193,071	21,150,639	0.91 %	307,979	159.52 %	
	Unsecured		801,221	69,038,813	1.16 %	967,805	120.79 %	
Consumer Banking	Mortgage		956,166	202,956,528	0.47 %	1,216,694	127.25 %	
	Personal loan		396,659	60,065,138	0.66 %	1,854,231	467.46 %	
	Others	Secured		-	803,001	-	-	-
		Unsecured		-	2,341,634	-	3,079	-
Total			2,347,117	356,355,753	0.66 %	4,349,788	185.32 %	
			Overdue	Accounts receivables	Overdue ratio	Allowance for bad debts	Coverage ratio	
Credit card			23,908	5,746,065	0.42 %	399,558	1,671.23 %	
Factoring loan receivable without recourse			-	27,786,879	-	-	-	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Product		Period	June 30, 2011					
			Non-performing loan	Loan balances	NPL ratio	Allowance for bad debts	Coverage ratio	
Wholesale Banking	Secured		298,206	28,868,119	1.03 %	433,813	145.47 %	
	Unsecured		438,000	43,415,990	1.01 %	1,243,615	283.93 %	
Consumer Banking	Mortgage		844,397	231,319,412	0.37 %	1,198,160	141.90 %	
	Personal loan		290,798	52,277,591	0.56 %	1,644,331	565.45 %	
	Others	Secured		-	3,133,354	- %	-	- %
		Unsecured		-	9,386	- %	458	- %
Total			1,871,401	359,023,852	0.52 %	4,520,377	241.55 %	
			Overdue	Accounts receivables	Overdue ratio	Allowance for bad debts	Coverage ratio	
Credit card			15,929	6,124,070	0.26 %	586,876	3,684.32 %	
Factoring loan receivable without recourse			-	15,411,756	- %	-	- %	

As of June 30, 2012 and 2011, the information of loans and accounts receivables which need not be reported as non-performing loans or as overdue accounts receivables were as follows:

	June 30, 2012		June 30, 2011	
	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	\$ 23,542	87,058	30,672	115,062
The amount not required to be reported as debts under debt discharge program and rehabilitation program without default by debtors	440,952	-	427,925	-
	<u>\$ 464,494</u>	<u>87,058</u>	<u>458,597</u>	<u>115,062</u>

7) Available-for-sale financial assets

As of June 30, 2012 and 2011, available-for-sale financial assets were as follows:

	June 30, 2012	June 30, 2011
Debt instruments:		
Treasury bills	\$ 6,566,820	6,938,964
Government bonds	9,534,007	10,612,960
Negotiable certificates of deposits	165,086,855	201,113,428
Financial debentures	5,509,445	5,456,876
Corporate bonds	610,565	853,610
Subtotal	187,307,692	224,975,838
Beneficiary certificates	1,737,070	4,507,461
Equity instruments	80,839	-
Total	<u>\$ 189,125,601</u>	<u>229,483,299</u>
Mark-to-market adjustments for hedged assets included in the above balance	<u>\$ 10,329</u>	<u>36,757</u>

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the six months periods ended June 30, 2012 and 2011, the movements of unrealized gain on available-for-sale financial assets were as follows:

	June 30, 2012	June 30, 2011
Beginning balance	\$ 772,342	373,167
Add: unrealized (loss) gain recognized during the period	(9,206)	157,359
Less: realized (loss) gain recognized during the period	(9,976)	590
Ending balance	<u>\$ 773,112</u>	<u>529,936</u>

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.

The Bank evaluated the Seller Certificates on hand in accordance with the securitization agreement regarding the redemption of these certificates. Indication of impairment exists; therefore, the Bank recognized \$197,987 thousand impairment loss for the six months period ended June 30, 2011. The Bank redeemed the second issuance of the mortgage loan on December 19, 2011.

A. As of June 30, 2012 and 2011, key assumptions used in measuring retained interests were as follows:

	June 30, 2012	
	First Issuance	Second Issuance
Prepayment rate (annualized rate) — assumption 1	30.00 %	- %
Weighted-average life	0.24 years	- years
Expected credit loss rate (annualized rate) — assumption 2	1.50 %	- %
Discounted rate for residual cash flows	2.60 %	- %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

	June 30, 2011	
	First Issuance	Second Issuance
Prepayment rate (annualized rate) – assumption 1	30.00 %	20.00 %
Weighted-average life	1.44 years	0.24 years
Expected credit loss rate (annualized rate) – assumption 2	1.50 %	1.50 %
Discounted rate for residual cash flows	2.60 %	2.60 %

B. Sensitivity analysis

As of June 30, 2012 and 2011, if the key economic assumptions as below were adversely changed by 10%, the sensitivity of the current fair value of residual cash flows would be as follows:

	June 30, 2012	
	First Issuance	Second Issuance
Carrying amount of retained interest	\$ 1,737,070	-
Assumption 1 – impact on fair value of 10% adverse change	25	-
Assumption 2 – impact on fair value of 10% adverse change	17	-

	June 30, 2011	
	First Issuance	Second Issuance
Carrying amount of retained interest	\$ 1,745,688	2,763,215
Assumption 1 – impact on fair value of 10% adverse change	(633)	(76)
Assumption 2 – impact on fair value of 10% adverse change	(1,869)	(2,217)

C. As of June 30, 2012 and 2011, 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, 2012 and 2011, were summarized as follows:

	June 30, 2012	
	First Issuance	Second Issuance
Other cash flows received on retained interests	\$ 14,648	-
Service fee received	2,500	-
Cash received for prepayment of services	31	-
Prepayment of services	(110)	-

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

	<u>June 30, 2011</u>	
	<u>First Issuance</u>	<u>Second Issuance</u>
Other cash flows received on retained interests	\$ 16,687	29,262
Service fee received	2,500	2,500
Cash received for prepayment of services	11	140
Prepayment of services	(20)	(107)

8) Financial assets carried at cost

	<u>June 30, 2012</u>			<u>June 30, 2011</u>		
	<u>Percentage of ownership %</u>	<u>Investment cost</u>	<u>Book value</u>	<u>Percentage of ownership %</u>	<u>Investment cost</u>	<u>Book value</u>
Equity method:						
Standard Chartered Life Insurance Agency Co., Ltd.	100.00	\$ 21	367,804	100.00	21	130,816
Taiwan Standard Chartered Insurance Agency Co., Ltd.	100.00	368	27,104	100.00	368	20,474
		<u>\$ 389</u>	<u>394,908</u>		<u>389</u>	<u>151,290</u>
Financial assets carried at cost:						
Fuji Enterprise Management Consulting Co., Ltd	0.99	\$ -	-	0.99	-	-
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	3.18	6,673	6,673
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	10,080	10,080
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	-	-	-	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
Subtotal		<u>360,129</u>	<u>360,129</u>		<u>457,143</u>	<u>457,143</u>
Less: accumulated impairment		<u>-</u>	<u>202,127</u>		<u>-</u>	<u>218,044</u>
		<u>\$ 360,129</u>	<u>158,002</u>		<u>457,143</u>	<u>239,099</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the six months periods ended June 30, 2012 and 2011, the Bank recognized investment income from investment in associates under the equity method of \$115,329 thousand and \$74,598 thousand, respectively. For the six months period ended June 30, 2012, the cash dividends from associates under the equity method was \$6,401 thousand, which reduced the book value of the investment.

For the six months periods ended June 30, 2012 and 2011, the dividend revenue recognized from financial assets carried at cost were \$2,169 thousand and \$4,173 thousand, respectively, recorded as other non-interest income, net.

Due to corporate restructuring of Taiwan Cooperative Bills Finance Corporation on December 1, 2011, 13,346 thousand shares held by the company were converted into 4,593 thousand shares in the company named Taiwan Cooperative Financial Holdings. The investment is classified as available-for-sale financial assets carried at cost.

The investment in Fuji Enterprise Management Consulting Co., Ltd is carried at cost. The Company increased its capital by 12700% on April 30, 2011. A further buyback on June 30, 2011 resulted in a capital reduction of 98.44% shares and bought back \$12,421 thousand at \$10 per share. The cost of the investment is at \$0, the full amount is recognized as investment income from associates under non interest income for sundries.

Taiwanpay Corporation began the process of liquidation on March 30, 2012 and paid back \$987 thousand for the company's investment in its shares. On June 13, 2012, Taiwanpay Corporation wound up and completed the liquidation process. The distribution of remaining assets amounts to \$421 thousand. The cost of the investment is at \$0, the full amount is recognized as investment income from associates under non interest income for sundries.

9) Property and equipment

As of June 30, 2012 and 2011, details of property and equipment were as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Cost:		
Land	\$ 3,126,362	3,152,388
Buildings	2,738,907	2,945,899
Office equipment	735,414	812,996
Transportation equipment	-	3,210
Leasehold improvements	591,088	840,631
Other equipment	<u>1,333,980</u>	<u>1,520,658</u>
Subtotal	8,525,751	9,275,782
Less: accumulated depreciation	2,782,773	2,969,067
accumulated impairment	<u>16,522</u>	-
Total	<u><u>\$ 5,726,456</u></u>	<u><u>6,306,715</u></u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the six months periods ended June 30, 2012 and 2011, movements of accumulated depreciation were as follows:

	June 30, 2012	June 30, 2011
Beginning balance	\$ 3,066,998	3,151,683
Add: depreciation	189,602	271,200
reclassification	18,697	-
Less: disposal and obsolescence	492,524	430,199
reclassification	-	23,617
Ending balance	<u>\$ 2,782,773</u>	<u>2,969,067</u>

10) Intangible assets

	June 30, 2012	June 30, 2011
Goodwill	\$ 3,156,048	3,156,048
Deferred pension costs	85,257	119,795
Software	48,143	102,039
	<u>\$ 3,289,448</u>	<u>3,377,882</u>

For the six months periods ended June 30, 2012 and 2011, the recognized amortization expenses from computer software were \$14,733 thousand and \$40,249 thousand, respectively, recognized as operating expenses—depreciation and amortization expenses.

11) Other assets

As of June 30, 2012 and 2011, details of other assets were as follows:

	June 30, 2012	June 30, 2011
Deferred income tax assets, net	\$ 1,892,974	2,592,836
Idle assets, net (Accumulated impairment of \$136,788 thousand and \$138,273 thousand as of June 30, 2012 and 2011, respectively)	170,487	493,482
Assets leased to others, net (Accumulated impairment of \$2,695 thousand and \$0 thousand as of June 30, 2012 and 2011, respectively)	343,585	300,160
Refundable deposits	513,990	567,661
Others	182,807	285,501
	<u>\$ 3,103,843</u>	<u>4,239,640</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the 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, 2012, future lease payments to be received were as follows:

Period	Amount
For the second half of 2012	\$ 9,935
2013	14,103
2014	9,705
2015	5,195
2016 and thereafter	3,651
	<u>\$ 42,589</u>

12) Deposits and remittances

As of June 30, 2012 and 2011, deposits and remittances were as follows:

	June 30, 2012	June 30, 2011
Checking deposits	\$ 4,552,071	4,538,369
Demand deposits	158,705,205	168,407,307
Time deposits	152,075,267	184,971,586
Savings deposits	123,740,371	129,276,505
Time savings deposits	93,006,918	90,442,430
Trust fund with designated purpose	-	157,209
Remittances	136,209	66,636
Total	<u>\$ 532,216,041</u>	<u>577,860,042</u>
Mark-to-market adjustments for the hedged liabilities included in the above balance	<u>\$ 57,141</u>	<u>22,011</u>

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

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

13) Financial debentures

As of June 30, 2012 and 2011, details of financial debentures issued by the Bank were as follows:

Bond	Conditions for issuance	June 30, 2012	June 30, 2011
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	\$ 1,000	1,000
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%	3,900	5,800
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%	4,500	6,900
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	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	4,481,295	4,307,796
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	4,481,295	4,307,796
100-1A	2-year term, interest payable quarterly, annual interest rate is 1.03%; maturity date: May 19, 2013	800,000	800,000
100-1B	3-year term, interest payable quarterly, annual interest rate is 1.17%; maturity date: May 19, 2014	100,000	100,000
100-1C	4-year term, interest payable quarterly, annual interest rate is 1.32%; maturity date: May 19, 2015	650,000	650,000
100-1D	5-year term, interest payable quarterly, annual interest rate is 1.45%; maturity date: May 19, 2016	6,150,000	6,150,000
100-1E	6-year term, interest payable quarterly, annual interest rate is 1.51%; maturity date: May 19, 2017	1,000,000	1,000,000
100-1F	7-year term, interest payable quarterly, annual interest rate is 1.60%; maturity date: May 19, 2018	2,550,000	2,550,000
100-1G	2-year term, interest payable quarterly, TWD 90-day CP interest rate; maturity date: May 19, 2013	3,700,000	3,700,000
100-1H	5-year term, interest payable quarterly, TWD 90-day CP interest rate; maturity date: May 19, 2016	400,000	400,000
100-1I	7-year term, interest payable quarterly, TWD 90-day CP interest rate; maturity date: May 19, 2018	4,000,000	4,000,000
100-2	5-year term, interest payable quarterly, annual interest rate is 1.451%; maturity date: June 8, 2016	500,000	500,000
100-3A	2-year term, interest payable quarterly, annual interest rate is 1.04%; maturity date: June 23, 2013	950,000	950,000
100-3B	2-year term, interest payable quarterly, TWD 90-day CP interest rate; maturity date: June 23, 2013	700,000	700,000
100-3C	5-year term, interest payable quarterly, annual interest rate is 1.40%; maturity date: September 23, 2016	1,100,000	1,100,000

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Bond	Conditions for issuance	June 30, 2012	June 30, 2011
100-4A	3-year term, interest payable quarterly, annual interest rate is 1.32%; maturity date: June 29, 2014	\$ 2,000,000	2,000,000
100-4B	2-year term, interest payable quarterly, TWD 90-day CP interest rate plus 0.15% interest rate; maturity date: June 29, 2013	400,000	400,000
100-4C	3-year term, interest payable quarterly, TWD 90-day CP interest rate plus 0.15% interest rate; maturity date: June 29, 2014	1,000,000	1,000,000
100-4D	10-year term, interest payable quarterly, TWD 90-day CP interest rate plus 0.15% interest rate; maturity date: June 29, 2021	2,000,000	2,000,000
101-1A	2-year term, interest payable quarterly, annual interest rate is 1.05%; maturity date: January 17, 2014	7,000,000	-
101-1B	2-year term, interest payable quarterly, TWD 90-day CP interest rate plus 0.25% interest rate; maturity date: January 17, 2014	700,000	-
101-1C	3-year term interest payable quarterly, annual interest is 1.09%; maturity date: January 17, 2015	600,000	-
101-2	2-year term, interest payable annually, annual interest rate is 1.05%; maturity date: May 24, 2014	6,700,000	-
		61,971,990	46,629,292
Mark-to-market adjustment on hedged items		382,814	111,273
Total		<u>\$ 62,354,804</u>	<u>46,740,565</u>

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 perpetual 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. On June 30, 2009, the board of directors approved the repayment of the above subordinated debentures.

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 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 USD300,000 thousand on March 25, 2009. The FSC approved the issuance on September 15, 2009. These debentures began to be traded on the over-the-counter market on December 11, 2009.

The board of directors approved the issuance of the 100-1, 100-2, 100-3 and 100-4 senior unsecured debentures at a total amount of \$28,000,000 thousand on December 15, 2010; the FSC subsequently approved this issuance on April 18, 2011. These senior unsecured debentures traded on the over-the-counter market on May 19, June 8, June 23 and June 29, 2011, respectively.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

The board of directors approved the issuance of the 101-1 and 101-2 senior unsecured debentures at an amount of \$15,000,000 thousand on June 21, 2011; the FSC subsequently approved the issuance on November 28, 2011. These senior unsecured debentures began to be traded on the over-the-counter market on January 17, 2012 and May 24, 2012, respectively.

14) Interest income

For the six months periods ended June 30, 2012 and 2011, details of interest income were as follows:

	June 30, 2012	June 30, 2011
Interbank transactions	\$ 201,478	166,288
Loans and advances to customers	5,593,411	4,872,218
Credit cards (revolving)	194,163	227,936
Financial assets at fair value through profit or loss	112,685	46,324
Available-for-sale financial assets	1,105,481	866,237
Others	506,814	321,091
Total	\$ 7,714,032	6,500,094

15) Other non-interest income (loss), net

For the six months periods ended June 30, 2012 and 2011, details of non-interest income (loss), net were as follows:

	June 30, 2012	June 30, 2011
Securities brokerage commissions, net	\$ 57,090	70,995
Rental income	9,643	12,426
Net (loss) profit on fair value hedge	(18,560)	65,742
Investment income from financial assets carried at cost	3,577	16,594
Others	6,801	44,815
Total	\$ 58,551	210,572

16) Pension

For the six months periods ended June 30, 2012 and 2011, the related pension assets, costs, and accrued liabilities of the Bank were as follows:

	June 30, 2012	June 30, 2011
Fair value of pension assets at end of period	\$ 1,554,285	1,577,445
Pension cost:		
Defined benefit pension scheme	127,754	136,682
Defined contribution pension scheme	77,201	82,733
Accrued pension liabilities	801,305	802,140

For the six months periods ended June 30, 2012 and 2011, net pension costs for employees rotated from foreign affiliate companies were \$3,503 thousand and \$4,386 thousand, respectively.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

17) 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, 2012 and 2011, 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:

	June 30, 2012	June 30, 2011
Beginning balance	<u>576,342</u>	<u>580,649</u>
Less: exercised	46,915	72,685
lapsed	<u>34,083</u>	<u>68,949</u>
Ending balance	<u>495,344</u>	<u>439,015</u>

For the six months periods ended June 30, 2012 and 2011, the costs of the ISS charged to profits or losses were \$14,668 thousand and \$18,684 thousand, respectively, recorded as operating expenses – staff costs.

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

B. Restricted share award (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. 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.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

The option movements of the RSS were as follows:

	June 30, 2012	June 30, 2011
Beginning balance	<u>254,648</u>	<u>248,673</u>
Add: granted	1,408	48,049
Less: exercised	80,296	14,250
lapsed	<u>9,116</u>	<u>7,152</u>
Ending balance	<u>166,644</u>	<u>275,320</u>

For the six months periods ended June 30, 2012 and 2011, the costs of the RSS charged to profits or losses were \$31,864 thousand and \$32,619 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.

This scheme has been granted and set out under the new RSA plan, effective May 5, 2011.

C. Executive share option scheme

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

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

	June 30, 2012	June 30, 2011
Beginning balance (Ending balance)	<u>\$ 6,233</u>	<u>6,233</u>

There were no costs of the ESOS charged to profit or loss recognized for the six months periods ended June 30, 2012 and 2011.

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 periods ended June 30, 2012 and 2011 .

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

D. Performance share award (performance share plan)

The Performance Share Award ("PSA") and 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. Share options are exercisable 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 PSA (PSP) were as follows:

	June 30, 2012	June 30, 2011
Beginning balance	77,608	105,055
Add: granted	-	32,062
Less: exercised	28,058	10,673
lapsed	-	16,718
Ending balance	<u>49,550</u>	<u>109,726</u>

For the six months periods ended June 30, 2012 and 2011, the costs of the PSA (PSP) charged to profit or loss were \$151 thousand and \$4,966 thousand, respectively, recorded as operating expenses – staff costs.

Under the PSA (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.

This scheme has been granted and set out under the new PSA plan, effective May 5, 2011.

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

E. Supplementary restricted share award (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. 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 eight years after the grant date.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

The option movements of the SRSS were as follows:

	June 30, 2012	June 30, 2011
Beginning balance	<u>32,457</u>	<u>42,165</u>
Less: lapsed	<u>11,142</u>	<u>8,044</u>
Ending balance	<u>21,315</u>	<u>34,121</u>

For the six months periods ended June 30, 2012 and 2011, the costs of the SRSS charged to profit or loss were \$500 thousand and \$4,238 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.

This scheme has been granted and set out under the new SRSA plan, effective May 5, 2011.

18) Income tax

The Bank's basic statutory tax rate is 17%. Based on the R.O.C. "Basic Income Tax Act", the income tax expense for the six months periods ended June 30, 2012 and 2011 were as follows:

	June 30, 2012	June 30, 2011
Current income tax expense	\$ (7,083)	1,811
Deferred income tax expense	306,618	995,604
Additional 10% surtax on undistributed earnings	149,532	20
Basic income tax	<u>70,471</u>	<u>37,618</u>
Income tax expense	<u>\$ 519,538</u>	<u>1,035,053</u>

The differences between the "expected" income tax at statutory income tax rates and the income tax expense as reported in the accompanying financial statements for the six months periods ended June 30, 2012 and 2011 were as follows:

	June 30, 2012	June 30, 2011
Income tax at statutory rates	\$ 459,848	1,223,811
Adjustment:		
Permanent difference	(193,439)	(221,604)
Prior-year income tax adjustments	(7,083)	1,811
Additional 10% surtax on undistributed earnings	149,532	20
Basic income tax	70,471	37,618
Other adjustments for tax regulation	<u>40,209</u>	<u>(6,603)</u>
Income tax expense	<u>\$ 519,538</u>	<u>1,035,053</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

For the six months periods ended June 30, 2012 and 2011, the components of deferred income tax expense were as follows:

	June 30, 2012	June 30, 2011
Expenses from share-based payments	\$ (1,836)	(3,494)
Unrealized interest income from financial assets	19,936	17,588
Allowance for doubtful accounts	(34,437)	604,938
Deferred revenue	38,793	13,780
Reserve for various loss	(5)	15
Pension cost	(11,535)	(9,446)
Unrealized gain on inter-affiliate transactions	-	8
Depreciation of property and equipment	(368)	7,191
Impairment loss on assets	(11,512)	(33,658)
Amortization of goodwill	26,826	26,826
Loss carryforwards	280,756	371,856
Deferred income tax expense	<u>\$ 306,618</u>	<u>995,604</u>

As of June 30, 2012 and 2011, details of the temporary differences, loss carryforwards and tax credits, and their respective income tax effect were as follows:

	June 30, 2012		June 30, 2011	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Expenses from share-based payments	\$ 226,677	38,535	176,374	29,984
Unrealized interest income from financial assets	1,899,209	322,866	2,127,682	361,706
Allowance for doubtful accounts	1,431,527	243,360	2,315,960	393,713
Deferred revenue	(218,477)	(37,141)	158,033	26,866
Reserve for various loss	973	165	222	38
Pension cost	818,460	139,138	784,756	133,409
Unrealized gain on inter-affiliate transactions	-	-	5,784	983
Depreciation of property and equipment	40,432	6,873	33,841	5,753
Impairment loss on assets	347,890	59,142	435,430	74,023
Amortization of goodwill	(1,104,617)	(187,786)	(789,012)	(134,132)
Loss carryforwards	8,806,803	1,497,157	10,755,317	1,828,404
Unrealized gain on available-for-sale financial assets	(950,125)	(161,521)	(677,581)	(113,489)
Unrealized gain on cash flow hedge	(163,610)	(27,814)	(84,837)	(14,422)
	<u>\$ 1,892,974</u>		<u>2,592,836</u>	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

As of June 30, 2012 and 2011, the components of tax refund receivables (income tax payables) recorded under accounts receivables were as follows:

	June 30, 2012	June 30, 2011
Current income tax expense	\$ 7,083	(1,811)
Withheld income tax	108,289	68,384
Prior-year income tax adjustments	(7,083)	1,811
Surtax on undistributed earnings	(149,532)	(20)
Basic income tax	<u>(70,471)</u>	<u>(37,618)</u>
	<u>\$ (111,714)</u>	<u>30,746</u>

As of June 30, 2012, the Bank's income tax receivables from prior years was \$115,817 thousand, and the income tax payables from prior years was \$21,191 thousand. As of June 30, 2011, the Bank's income tax receivables from prior years was \$145,340 thousand, and the income tax payables from prior years was \$21,191 thousand.

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, 2012, the amount of loss carryforwards and the year of expiry were as follows:

Year loss incurred	Amount	Year of expiry
2008 (assessed)	\$ 5,457,352	2018
2009 (assessed)	<u>3,349,451</u>	2019
	<u>\$ 8,806,803</u>	

The Bank's income tax returns have been assessed by the tax authority for all years through to 2009. SCBTL applied for a recheck of the 2009 income tax return filed with the tax authority. The tax authority agreed to reopen the 2009 tax return.

The balances of the imputation credit account (ICA) as of June 30, 2012 and 2011 were as follows:

	June 30, 2012	June 30, 2011
ICA	\$ 19,700	49,137
	2011 (actual)	2010 (actual)
Tax creditable ratios of distribution of retained earnings generated from fiscal year 2011 and 2010 to R.O.C. residents	<u>1.33 %</u>	<u>20.48 %</u>

The accumulated earnings as of June 30, 2012 and 2011 were all generated after 1998.

(Continued)

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

19) Stockholders' equity

A. Common stock

As of June 30, 2012, the Bank's authorized and issued capital were 30,000,000 thousand and 29,105,720 thousand, respectively.

B. Capital surplus

The R.O.C. Company Act as amended in January 2012 requires capital surplus to be used to offset an accumulated deficit before capitalization to shareholders' equity 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. In accordance with "Regulations Governing the Offering and Issuance of Securities", the amount of capital surplus capitalized each year may not exceed 10 percentage of the Bank's issued share capital.

C. Legal reserve and appropriated special reserve

Whenever the Bank generates a profit in accordance with "The Banking Act of The Republic of China". A bank, at the time of distributing its earnings for each fiscal year, shall set aside thirty percent (30%) of its after-tax earnings as a legal reserve. However, unless and until the accumulated legal reserve equals the Bank's paid-in capital, the maximum cash profits which may be distributed shall not exceed fifteen percent (15%) of the Bank's paid-in capital. In addition to the legal reserve, a special reserve can be appropriated and approved by the stockholders' meeting.

The board of directors approved the distribution of the 2011 and 2010 earnings on June 29, 2012 and June 21, 2011, and appropriated legal reserve of \$2,511,935 thousand and \$876,897 thousand, respectively.

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 bonus: 99.99%
- b. Employee bonus: 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 bonus for distribution if necessary.

On June 29, 2012 and June 21, 2011, the board of directors, representing shareholders, approved the distribution of retained earnings and distributed cash dividends for 2011 and 2010 of \$4,365,858 thousand and \$2,045,889 thousand, respectively.

The estimated amount of bonus distributed to employees that resolved by the possibility of anticipated distribution and the board of directors. Nevertheless, in the event of difference in the amount actually distributed upon resolution of shareholders' meeting and the estimated figures, this difference shall be identified as changes in accounting estimate and recognized as profit or loss for the current period.

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

The board of directors approved the distribution of 2010 earnings on June 21, 2011, and distributed bonus to employees for \$205 thousand. This difference shall be identified as changes in accounting estimate and recognized as profit or loss in 2011. Furthermore, the board of directors approved the distribution of 2011 earnings on June 29, 2012 and distributed bonus to employees for \$586 thousand. The estimated employee bonus was \$589 thousand; this difference of \$3 thousand shall be treated as changes in accounting estimate and recognized as profit or loss in 2012.

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

E. Weighted-average outstanding shares of common stock

As of June 30, 2012 and 2011, the weighted-average number of common shares outstanding were both 2,910,572 thousand shares. Furthermore, there is no dilutive potential common share as of June 30, 2012 and 2011.

20) 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 as 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 sell 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.
- 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. For deposits and remittances with maturity less than one year, their book values will be equal to their fair values. The fair value of deposits with maturity over than one year is the net present value of future cash flows.
- f. Financial debentures are financial liabilities with mainly floating interest rates, and therefore their fair value is equal to their carrying value.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

- 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, 2012 and 2011, the fair values of the Bank's financial assets and liabilities evaluated using valuation techniques were as listed below:

Accounts	June 30, 2012	June 30, 2011
Financial assets at fair value through profit or loss – debt instruments	\$ 25,830,001	11,018,140
Financial assets at fair value through profit or loss – derivatives	11,918,714	17,238,964
Available-for-sale financial assets – debt instruments	187,307,692	224,975,838
Available-for-sale financial assets – beneficiary certificates	1,737,070	4,507,461
Available-for-sale financial assets – equity securities	80,839	-
Financial liabilities at fair value through profit or loss – debt instruments	-	883,536
Financial liabilities at fair value through profit or loss – derivatives	10,742,881	15,692,501

For the six months periods ended June 30, 2012 and 2011, the Bank recognized gain amounting to \$664,826 thousand and \$819,193 thousand, respectively, and the differences were caused by their fair value of financial instruments that were evaluated using valuation techniques.

- B. As of June 30, 2012 and 2011, outstanding derivative contracts held by the Bank were as listed below:

	June 30, 2012		
	Notional amount	Fair value	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 168,207,021	799,946	798,619
Forward contracts	531,916,244	3,148,389	2,535,841
Cross-currency swaps	58,419,938	1,638,973	1,456,278
Interest rate swaps	1,296,682,724	6,176,866	5,828,303
Interest rate derivatives	21,961,659	30,700	-
Commodity swaps	3,641,292	123,840	123,840
	\$ 2,080,828,878	11,918,714	10,742,881

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

	Notional amount	June 30, 2011	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 155,776,630	569,027	569,282
Forward contracts	845,100,792	4,822,327	3,596,125
Cross-currency swaps	192,988,358	5,711,822	4,773,158
Interest rate swaps	1,293,499,695	5,812,776	6,479,920
Interest rate derivatives	48,394,432	90,900	41,904
Commodity swaps	8,736,918	232,112	232,112
	\$ 2,544,496,825	17,238,964	15,692,501

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

C. Financial risk management and risk information

a. Market risk

The Bank mainly applies 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 260 trading days.

The table below lists the market risk of financial instruments of the Bank as of June 30, 2012 and 2011. 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	June 30, 2012			June 30, 2011		
	Annual average	Maximum	Minimum	Annual average	Maximum	Minimum
Exchange rate	\$ 7,077	12,847	2,635	3,761	7,915	814
Interest rate	19,062	25,317	12,687	22,767	44,971	12,865

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, 2012 and 2011, the percentages of loans with collateral were 63.11% and 73.34%, 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 mitigates the credit risk. However, when disclosing the amount of maximum credit risk exposure, the fair value of collateral is ignored. No additional disclosure is provided for financial assets associated with credit risks since their book value, net of corresponding valuation allowance, reflects their maximum credit exposures.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

As of June 30, 2012 and 2011, 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	June 30, 2012	June 30, 2011
Manufacturing	\$ 35,669,418	33,644,505
Commercial	15,714,529	12,912,791
Construction	1,578,647	3,868,618
Financial	19,189,481	861,559
Individual	272,559,010	294,301,865
Others	11,644,668	13,434,514
	<u>\$ 356,355,753</u>	<u>359,023,852</u>

The amount of the above mentioned 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.

As of June 30, 2012 and 2011, the industry classifications of the 10 group enterprises with the largest outstanding loans were as follows:

June 30, 2012			
Rank	Industry Classification of Group Enterprise	Outstanding loan	% of net assets
1	Other computer peripheral manufacturing industry	3,585,035	8.34 %
2	Semiconductors packaging and testing	2,136,140	4.97 %
3	Cement manufacturing	2,038,711	4.74 %
4	Cement manufacturing	2,031,520	4.72 %
5	Banking	1,894,203	4.40 %
6	Banking	1,860,223	4.33 %
7	Banking	1,850,309	4.30 %
8	Banking	1,849,410	4.30 %
9	Banking	1,844,740	4.29 %
10	Banking	1,804,779	4.20 %

(Continued)

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Notes to the Financial Statements

June 30, 2011			
Rank	Industry Classification of Group Enterprise	Outstanding loan	% of net assets
1	Real estate and rental and leasing	3,525,000	8.28 %
2	Semiconductors packaging and testing	2,176,805	5.11 %
3	Other computer peripheral manufacturing industry	2,073,577	4.87 %
4	Semiconductor manufacturing	1,737,461	4.08 %
5	Other food manufacturing not elsewhere classified	1,550,807	3.64 %
6	Sheet glass and sheet glass products manufacturing	1,524,839	3.58 %
7	Electric wires and cables manufacturing	1,414,319	3.32 %
8	Cement manufacturing	1,365,322	3.21 %
9	Retail sale of automobiles in specialized stores	1,352,058	3.18 %
10	LCD and components manufacturing	1,138,582	2.67 %

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

c. Liquidity risk

As of June 30, 2012 and 2011, the liquidity reserve ratios were 54.77% and 46.76%, 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; therefore, this can cause considerable profit or loss. As of June 30, 2012 and 2011, the liquidity of the Bank was assessed by grouping of assets and 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.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Financial Assets	June 30, 2012				
	Within 3 months	3 months-1 year	1~5 years	Over 5 years	Total
Cash and cash equivalents	\$ 8,227,443	-	-	-	8,227,443
Balance at Central Bank and loans and advances to banks	55,645,464	13,600,730	-	-	69,246,194
Financial assets at fair value through profit or loss	37,748,715	-	-	-	37,748,715
Bills and bonds investments under reverse sell agreements	10,746,723	-	-	-	10,746,723
Loans and advances to customers, net	45,589,540	15,947,212	37,686,179	252,976,822	352,199,753
Available-for-sale financial assets, net	51,533,488	122,304,644	13,464,339	1,823,130	189,125,601
Other financial assets, net	325	41,042	473,384	218,703	733,454
Total	<u>\$ 209,491,698</u>	<u>151,893,628</u>	<u>51,623,902</u>	<u>255,018,655</u>	<u>668,027,883</u>
Financial Liabilities					
Deposits by Central Bank and other banks	\$ 39,089,997	4,220,363	-	-	43,310,360
Financial liabilities at fair value through profit or loss	10,742,881	-	-	-	10,742,881
Deposits and remittances	376,139,839	136,136,339	19,939,863	-	532,216,041
Financial debentures	9,400	6,552,439	28,061,380	27,731,585	62,354,804
Other financial liabilities	4,313,686	2,102,233	6,410,057	2,500,000	15,325,976
Total	<u>\$ 430,295,803</u>	<u>149,011,374</u>	<u>54,411,300</u>	<u>30,231,585</u>	<u>663,950,062</u>
Gap	<u>\$ (220,804,105)</u>	<u>2,882,254</u>	<u>(2,787,398)</u>	<u>224,787,070</u>	<u>4,077,821</u>
June 30, 2011					
Financial Assets	Within 3 months	3 months-1 year	1~5 years	Over 5 years	Total
Cash and cash equivalents	\$ 7,785,883	-	-	-	7,785,883
Balance at Central Bank and loans and advances to banks	76,633,693	-	-	-	76,633,693
Financial assets at fair value through profit or loss	28,257,104	-	-	-	28,257,104
Bills and bonds investments under reverse sell agreements	2,068,587	-	-	-	2,068,587
Loans and advances to customers, net	36,211,031	11,783,813	34,644,114	271,671,330	354,310,288
Available-for-sale financial assets, net	79,262,314	133,884,548	7,169,780	9,166,657	229,483,299
Other financial assets, net	112	5,720	227,872	239,099	472,803
Total	<u>\$ 230,218,724</u>	<u>145,674,081</u>	<u>42,041,766</u>	<u>281,077,086</u>	<u>699,011,657</u>
Financial Liabilities					
Deposits by Central Bank and other banks	\$ 23,701,734	6,988,675	-	-	30,690,409
Financial liabilities at fair value through profit or loss	16,576,037	-	-	-	16,576,037
Deposits and remittances	418,328,888	127,366,272	32,164,882	-	577,860,042
Financial debentures	13,700	-	17,350,000	29,376,865	46,740,565
Other financial liabilities	3,358,075	343,939	867,382	10,109,139	14,678,535
Total	<u>\$ 461,978,434</u>	<u>134,698,886</u>	<u>50,382,264</u>	<u>39,486,004</u>	<u>686,545,588</u>
Gap	<u>\$ (231,759,710)</u>	<u>10,975,195</u>	<u>(8,340,498)</u>	<u>241,591,082</u>	<u>12,466,069</u>

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Notes to the Financial Statements

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, 2012

	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	\$ 788,906,823	166,955,823	121,434,480	110,735,605	124,499,317	265,281,598
Capital used	797,766,918	129,966,029	127,584,156	109,458,001	99,263,335	331,495,397
Gap	(8,860,095)	36,989,794	(6,149,676)	1,277,604	25,235,982	(66,213,799)

Structure Analysis of Maturity Date U.S. Dollars
June 30, 2012

(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	\$ 13,586,595	5,244,915	4,120,191	2,005,676	1,733,850	481,963
Capital used	14,567,365	5,068,712	4,505,183	1,730,457	1,208,527	2,054,486
Gap	(980,770)	176,203	(384,992)	275,219	525,323	(1,572,523)

Structure Analysis of Maturity Date New Taiwan Dollars
June 30, 2011

	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	\$ 830,848,336	207,368,136	83,513,770	124,975,527	144,063,228	270,927,675
Capital used	846,649,538	167,252,100	137,168,104	165,840,423	84,343,785	292,045,126
Gap	(15,801,202)	40,116,036	(53,654,334)	(40,864,896)	59,719,443	(21,117,451)

Structure Analysis of Maturity Date U.S. Dollars
June 30, 2011

(expressed in thousands of US dollars)

	Total	Remaining period to expiration				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 180 to 1 year	Over 1 year
Capital provided	\$ 11,080,996	4,617,369	2,294,211	2,267,477	1,288,635	613,304
Capital used	11,105,156	4,950,218	2,186,837	1,640,368	1,216,458	1,111,275
Gap	(24,160)	(332,849)	107,374	627,109	72,177	(497,971)

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, 2012 and 2011, the Bank presumed that the expected re-pricing dates and maturity dates were not affected by contractual terms. The interest rate risks listed below are stated based on the book value of financial assets and liabilities held by the Bank and classified based on the earlier of the maturity date or re-pricing date.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

June 30, 2012										
Financial Assets	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	Total
Cash and cash equivalents	\$ -	-	-	-	-	-	-	-	8,227,443	8,227,443
Balance at Central Bank and loans and advances to banks	43,715,638	1,112,193	13,600,730	-	-	-	-	-	10,817,633	69,246,194
Financial assets at fair value through profit or loss	37,748,715	-	-	-	-	-	-	-	-	37,748,715
Bills and bonds investments under reverse sell agreements	10,746,723	-	-	-	-	-	-	-	-	10,746,723
Loans and advances to customers, net	86,730,890	243,537,591	15,004,306	1,727,011	377,316	799,202	2,347,987	4,472,358	(2,796,908)	352,199,753
Available-for-sale financial assets, net	11,729,747	41,540,811	122,304,644	4,222,286	828,602	546,186	7,867,265	5,221	80,839	189,125,601
Other financial assets, net	151	174	41,042	132,962	188,289	103,412	48,721	60,701	158,002	733,454
Total	\$ 190,671,864	286,190,769	150,950,722	6,082,259	1,394,207	1,448,800	10,263,973	4,538,280	16,487,009	668,027,883
Financial Liabilities										
Deposits by Central Bank and other banks	\$ 32,304,921	5,629,228	2,987,530	-	-	-	-	-	2,388,681	43,310,360
Financial liabilities at fair value through profit or loss	10,742,881	-	-	-	-	-	-	-	-	10,742,881
Deposits and remittances	345,056,645	42,583,705	120,764,037	18,758,975	500,608	-	-	-	4,552,071	532,216,041
Financial debentures	10,160,134	45,485,270	-	6,700,000	-	-	-	-	9,400	62,354,804
Other financial liabilities	4,599,120	10,710,825	2,233	10,238	-	-	3,560	-	-	15,325,976
Total	\$ 402,863,701	104,409,028	123,753,800	25,469,213	500,608	-	3,560	-	6,950,152	663,950,062
Sensitivity gap	\$ (212,191,837)	181,781,741	27,196,922	(19,386,954)	893,599	1,448,800	10,260,413	4,538,280	9,536,857	4,077,821
June 30, 2011										
Financial Assets	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	Total
Cash and cash equivalents	\$ -	-	-	-	-	-	-	-	7,785,883	7,785,883
Balance at Central Bank and loans and advances to banks	60,743,128	4,164,203	-	-	-	-	-	-	11,726,362	76,633,693
Financial assets at fair value through profit or loss	28,257,104	-	-	-	-	-	-	-	-	28,257,104
Bills and bonds investments under reverse sell agreements	2,068,587	-	-	-	-	-	-	-	-	2,068,587
Loans and advances to customers, net	79,867,770	205,265,560	57,406,887	2,860,769	1,298,584	4,486,010	1,275,545	4,955,275	(3,106,112)	354,310,288
Available-for-sale financial assets, net	42,173,904	41,594,971	133,884,548	4,511,004	617,430	2,041,345	-	5,343,514	(683,417)	229,483,299
Other financial assets, net	112	-	5,720	40,816	38,504	142,046	6,506	-	239,099	472,803
Total	\$ 213,110,605	251,024,734	191,297,155	7,412,589	1,954,518	6,669,401	1,282,051	10,298,789	15,961,815	699,011,657
Financial Liabilities										
Deposits by Central Bank and other banks	\$ 22,066,849	2,871,864	5,743,729	-	-	-	-	-	7,967	30,690,409
Financial liabilities at fair value through profit or loss	16,576,037	-	-	-	-	-	-	-	-	16,576,037
Deposits and remittances	360,156,078	59,733,135	121,689,315	12,854,946	18,640,110	248,089	-	-	4,538,369	577,860,042
Financial debentures	10,111,272	34,615,593	-	-	2,000,000	-	-	-	13,700	46,740,565
Other financial liabilities	6,416,050	7,617,064	368,899	149,078	12,685	99,864	5,756	9,139	-	14,678,535
Total	\$ 415,326,286	104,837,656	127,801,943	13,004,024	20,652,795	347,953	5,756	9,139	4,560,036	686,545,588
Sensitivity gap	\$ (202,215,681)	146,187,078	63,495,212	(5,591,435)	(18,698,277)	6,321,448	1,276,295	10,289,650	11,401,779	12,466,069

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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, 2012

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 434,016,444	70,796,228	65,862,839	18,268,399	588,943,910
Interest-rate-sensitive liabilities	353,852,197	62,696,325	40,261,904	35,655,156	492,465,582
Interest-rate-sensitive spread	80,164,247	8,099,903	25,600,935	(17,386,757)	96,478,328
Net worth					42,022,859
Ratio of interest-rate-sensitive assets to liabilities (%)					119.59
Ratio of interest-rate-sensitive spread to net worth (%)					229.59

Interest-Rate Sensitivity Analysis U.S. Dollars June 30, 2012

(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	\$ 2,441,133	228,683	360,186	247,193	3,277,195
Interest-rate-sensitive liabilities	4,582,327	298,035	262,231	8,639	5,151,232
Interest-rate-sensitive spread	(2,141,194)	(69,352)	97,955	238,554	(1,874,037)
Net worth					34,377
Ratio of interest-rate-sensitive assets to liabilities (%)					63.62
Ratio of interest-rate-sensitive spread to net worth (%)					(5,451.43)

Interest-Rate Sensitivity Analysis New Taiwan Dollars June 30, 2011

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 150,528,778	97,613,856	112,709,969	247,007,688	607,860,291
Interest-rate-sensitive liabilities	108,616,033	307,781,585	45,089,306	70,637,388	532,124,312
Interest-rate-sensitive spread	41,912,745	(210,167,729)	67,620,663	176,370,300	75,735,979
Net worth					39,308,275
Ratio of interest-rate-sensitive assets to liabilities (%)					114.23
Ratio of interest-rate-sensitive spread to net worth (%)					192.67

Interest-Rate Sensitivity Analysis U.S. Dollars June 30, 2011

(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	\$ 1,853,456	275,051	4,207	238,276	2,370,990
Interest-rate-sensitive liabilities	1,007,684	2,444,242	109,689	317,074	3,878,689
Interest-rate-sensitive spread	845,772	(2,169,191)	(105,482)	(78,798)	(1,507,699)
Net worth					17,895
Ratio of interest-rate-sensitive assets to liabilities (%)					61.13
Ratio of interest-rate-sensitive spread to net worth (%)					(8,425.25)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

	June 30, 2012	
	Average amount	Average interest rate %
Assets:		
Balance at Central Bank - Demand account	\$ 17,367,760	0.49
Loans and advances to banks (including deposits with affiliate companies and advances to affiliate companies)	47,867,160	0.67
Loans and advances to customers	355,231,678	3.15
Financial assets at fair value through profit or loss	22,698,106	0.99
Available-for-sale financial assets	213,826,235	1.03
Liabilities:		
Deposits by Central Bank and loans from other banks (including deposits from affiliate companies)	32,672,649	0.65
Demand deposits (including local currency and foreign currency)	301,424,438	0.26
Time deposits (including local currency and foreign currency)	252,741,427	1.21
Negotiable certificates of deposits	13,610,041	1.05
Financial debentures	55,875,114	2.25
	June 30, 2011	
	Average amount	Average interest rate %
Assets:		
Balance at Central Bank - Demand account	\$ 19,327,564	0.45
Loans and advances to banks (including deposits with affiliate companies and advances to affiliate companies)	52,346,639	0.47
Loans and advances to customers	358,641,532	2.71
Financial assets at fair value through profit or loss	11,100,278	0.83
Available-for-sale financial assets	200,465,831	0.86
Liabilities:		
Deposits by Central Bank and loans from other banks (including deposits from affiliate companies)	14,917,712	0.72
Demand deposits (including local currency and foreign currency)	295,931,680	0.15
Time deposits (including local currency and foreign currency)	283,213,136	1.08
Negotiable certificates of deposits	8,121,392	1.00
Financial debentures	23,345,925	2.62

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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 counterparty's contracts, and making sure that the Bank follows the financial regulations and operational regulations.

D. Fair value hedge

A fair value hedge is the hedging of the 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, 2012 and 2011, mark-to-market adjustments of hedged items and the corresponding hedging instruments (recorded under other financial assets or liabilities, net) accounted as fair value hedge were as follows:

Hedged item		Hedging instruments	
Underlying instruments	June 30, 2012	Contract type	June 30, 2012
Available-for-sale financial assets:			
Government bonds	\$ 10,329	Interest rate swaps	\$ (10,431)
Time deposits – NTD	(57,141)	Interest rate swaps	56,826
Financial debentures	(382,814)	Interest rate swaps	385,522
	<u>\$ (429,626)</u>		<u>\$ 431,917</u>

Hedged item		Hedging instruments	
Underlying instruments	June 30, 2011	Contract type	June 30, 2011
Available-for-sale financial assets:			
Government bonds	\$ 16,565	Interest rate swaps	\$ (16,719)
Government bonds	20,192	Cross-currency swaps	(19,875)
Time deposits – NTD	(22,011)	Interest rate swaps	22,350
Financial debentures	(111,273)	Interest rate swaps	115,881
	<u>\$ (96,527)</u>		<u>\$ 101,637</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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, 2012 and 2011, details of hedged items and designated hedging instruments (recorded under other financial assets or liabilities, net) were summarized as follows:

June 30, 2012					
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	\$ 52,325,000	163,610	2010-2016	2010-2016
June 30, 2011					
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	\$ 70,800,000	84,837	2009-2016	2009-2016

The detail of unrealized gains or losses on cash flow hedge for the six months periods ended June 30, 2012 and 2011 were as below:

	June 30, 2012	June 30, 2011
Adjustments to stockholders' equity	<u>\$ (54,572)</u>	<u>4,132</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

F. Fair value hierarchy information of financial instruments and the statements of changes in fair value of Level 3

a. Fair value hierarchy information of financial instruments

A fair value measurement for a financial instrument	June 30, 2012			
	Total	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Investment in bonds	\$ 25,830,001	7,075,261	18,754,740	-
Available-for-sale financial assets				
Investment in bonds	187,307,692	16,083,617	171,224,075	-
Beneficiary certificates	1,737,070	-	-	1,737,070
Equity securities	80,839	80,839	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	11,918,714	17,919	11,655,935	244,860
Other financial assets				
Hedging derivative financial assets	575,452	-	575,452	-
Liabilities:				
Financial liabilities at fair value through profit or loss	10,742,881	18,907	10,633,738	90,236
Other financial liabilities				
Hedging derivative financial liabilities	16,116	-	16,116	-
A fair value measurement for a financial instrument	June 30, 2011			
Total	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)	
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Investment in bonds	\$ 11,018,140	1,083,086	9,935,054	-
Available-for-sale financial assets				
Investment in bonds	224,975,838	17,551,924	207,423,914	-
Beneficiary certificates	4,507,461	-	-	4,507,461
Liabilities:				
Financial liabilities at fair value through profit or loss	883,536	883,536	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	17,238,964	31,657	16,768,998	438,309
Other financial assets				
Hedging derivative financial assets	233,681	-	233,681	-
Liabilities:				
Financial liabilities at fair value through profit or loss	15,692,501	18,603	15,344,240	329,658
Other financial liabilities				
Hedging derivative financial liabilities	519,019	-	519,019	-

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

b. Statements of changes in financial assets which were classified to Level 3 based on fair value measurement

Items	June 30, 2012								
	Beginning balance	The amount recognized in current net gain (losses) or stockholders' equity	Purchase or issue	Transfer in of level 3 and out of other levels	Transfer in of level 3 of financial assets and out of level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of level3	Transfer in of level 3 of financial liabilities and out of level 3 of financial assets	Ending balance
Non-derivative financial instruments									
Available-for-sale financial assets:									
Beneficiary certificates	\$ 1,752,582	(15,512)	-	-	-	-	-	-	1,737,070
Derivative financial instruments									
Financial assets at fair value through profit or loss	362,955	(118,095)	-	-	-	-	-	-	244,860
	<u>\$ 2,115,537</u>	<u>(133,607)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,981,930</u>

Items	June 30, 2011								
	Beginning balance	The amount recognized in current net gain (losses) or stockholders' equity	Purchase or issue	Transfer in of level 3 and out of other levels	Transfer in of level 3 of financial assets and out of level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of level3	Transfer in of level 3 of financial liabilities and out of level 3 of financial assets	Ending balance
Non-derivative financial instruments									
Available-for-sale financial assets:									
Beneficiary certificates	\$ 4,951,442	(443,981)	-	-	-	-	-	-	4,507,461
Derivative financial instruments									
Financial assets at fair value through profit or loss	598,304	(159,995)	-	-	-	-	-	-	438,309
	<u>\$ 5,549,746</u>	<u>(603,976)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,945,770</u>

c. Statements of changes in financial liabilities which were classified to level 3 based on fair value measurement

Items	June 30, 2012								
	Beginning balance	The amount recognized in current net gain (losses) or stockholders' equity	Purchase or issue	Transfer in of level 3 and out of other levels	Transfer in of level 3 of financial assets and out of level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of level3	Transfer in of level 3 of financial liabilities and out of level 3 of financial assets	Ending balance
Derivative financial instruments									
Financial liabilities at fair value through profit or loss	\$ 275,719	(185,483)	-	-	-	-	-	-	90,236

Items	June 30, 2011								
	Beginning balance	The amount recognized in current net gain (losses) or stockholders' equity	Purchase or issue	Transfer in of level 3 and out of other levels	Transfer in of level 3 of financial assets and out of level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of level3	Transfer in of level 3 of financial liabilities and out of level 3 of financial assets	Ending balance
Derivative financial instruments									
Financial liabilities at fair value through profit or loss	\$ 500,037	(170,379)	-	-	-	-	-	-	329,658

(Continued)

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

- Note 1: Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. In accordance with the fifth paragraph of SFAS No. 34 "Financial Instruments: Recognition and Measurement", the definition of active market fulfills all of the following conditions: (1) the products traded in the market are homogeneous, (2) willing parties are available anytime in the market, and (3) price information is available for the public.
- Note 2: Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The examples of observable price are as follows:
- (1) The quoted price for an identical financial instrument in an active market means the fair value from the occurring market transaction prices for an identical financial instrument. An identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the occurring market transaction prices for an identical financial instrument (the quoted prices does not represent fair value at the measurement date), difference of transaction terms for financial instruments, transaction prices involved in related parties, and correlation between the observable transaction prices of identical financial instruments and the market price of held financial instruments.
 - (2) The quoted market price of the same or identical financial instruments in an inactive market.
 - (3) The fair value is estimated on the basis of the results of a valuation technique and the market inputs (i.e., interest rate, yield curve, and fluctuation rate) used were based on obtainable data from market (an observable input means an input can be derived from market data and can reflect the expectation of market participants when the inputs were used in evaluating the prices of financial instruments).
 - (4) A majority of inputs derived from observable market data, or the input correlation can be tested based on observable market data.
- Note 3: Input for a fair value measurement for a financial instrument classified in level 3 is not based on obtainable data from market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility).

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the 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 Bank Taipei Branch ("SCB Taipei")	Affiliate
Standard Chartered Bank New York ("SCB New York")	Affiliate
Standard Chartered Bank Tokyo ("SCB Tokyo")	Affiliate
Standard Chartered Bank Singapore ("SCB Singapore")	Affiliate
Standard Chartered Bank Germany ("SCB Germany")	Affiliate
Standard Chartered Bank Malaysia ("SCB Malaysia")	Affiliate
Standard Chartered Bank India ("SCB India")	Affiliate
Scope International Private Limited	Affiliate
Scope International (M) Sdn Bhd	Affiliate
Standard Chartered Bank Hong Kong Limited ("SCB HK")	Affiliate
Standard Chartered First Bank Korea Limited ("SCFB Korea")	Affiliate
Standard Chartered Bank China Limited ("SCB China")	Affiliate
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
Directors, Supervisors, President and Vice Presidents	The senior management of the Bank
Others	The senior management of the Bank and their families, spouses, etc.

2) Significant transactions with related parties

A. Deposits

As of June 30, 2012 and 2011, deposits provided by related parties were as summarized below:

June 30, 2012			
Name	Ending balance	Percentage of deposits (%)	Interest rate (%)
Deposits by individual related parties not over 1% of total deposits	\$ <u>627,244</u>	<u>0.12</u>	0.00~4.65
June 30, 2011			
Name	Ending balance	Percentage of deposits (%)	Interest rate (%)
Deposits by individual related parties not over 1% of total deposits	\$ <u>343,928</u>	<u>0.06</u>	0.00~5.31

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

The interest rate on employee savings accounts was calculated based on the interest rate of time savings deposits with three-year term offered to the general public plus 3% starting March 9, 2009.

For the six months periods ended June 30, 2012 and 2011, interest expenses on the above deposits were \$2,769 thousand and \$1,539 thousand, respectively, and the interest payables on the above transaction were \$314 thousand and \$220 thousand, respectively.

B. Loans

As of June 30, 2012 and 2011, loans to related parties were as below:

June 30, 2012							
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	11	5,950	5,355	5,355	-	Unsecured lending	None
Mortgage	14	127,740	120,970	120,970	-	House	None
Others	1	2,724	2,550	2,550	-	Overdraft on the comprehensive deposits	None

June 30, 2011							
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	9	4,249	3,817	3,817	-	Unsecured lending	None
Mortgage	19	146,679	141,709	141,709	-	House	None
Others	1	3,066	2,895	2,895	-	Overdraft on the comprehensive deposits	None

For the six months periods ended June 30, 2012 and 2011, interest income on the above loans were \$1,109 thousand and \$846 thousand, respectively, and the interest receivables on the above transaction was \$98 thousand and \$101 thousand, respectively.

C. Deposits with affiliates

For the six months periods ended June 30, 2012 and 2011, deposits with affiliates and related interest income were as follows:

	June 30, 2012		
	Balance	Interest rate %	Interest income
SCB China	\$ 796,031	-	-
SCB Singapore	435,867	-	-
SCB HK	423,776	-	-
SCB Tokyo	213,513	-	-
Others	227,231	-	-
	<u>\$ 2,096,418</u>		<u>-</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

	June 30, 2011		
	Balance	Interest rate %	Interest income
SCB New York	\$ 2,253,906	0.05	439
SCB Germany	404,591	-	-
Others	254,059	-	-
	<u>\$ 2,912,556</u>		<u>439</u>

As of June 30, 2012 and 2011, the interest receivables resulting from the above deposits with affiliates were both \$0 thousand.

D. Loans and advances to affiliates

For the six months periods ended June 30, 2012 and 2011, loans and advances to affiliates and related interest income were as follows:

	June 30, 2012		
	Balance	Interest rate %	Interest income
SCB Taipei	<u>\$ 26,362,756</u>	0.10~1.93	<u>115,529</u>
	June 30, 2011		
	Balance	Interest rate %	Interest income
SCB Taipei	<u>\$ 28,239,259</u>	0.03~1.25	<u>20,442</u>

As of June 30, 2012 and 2011, the interest receivables resulting from the above loans and advances to affiliates were \$49,497 thousand and \$9,068 thousand, respectively.

E. Deposits from affiliates

For the six months periods June 30, 2012 and 2011, deposits from affiliates and related interest expenses were as follows:

	June 30, 2012		
	Balance	Interest rate %	Interest expense
SCB Taipei	<u>\$ 299,704</u>	0.01	<u>2</u>
	June 30, 2011		
	Balance	Interest rate %	Interest expense
SCB Taipei	<u>\$ 1,412,053</u>	-	<u>28</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

F. Overdrafts to affiliates

For the six months period ended June 30, 2012, overdrafts to affiliates and related interest expenses were as follows:

	June 30, 2012		
	Balance	Interest rate %	Interest expense
SCB New York	\$ <u>2,367,997</u>	-	<u>238</u>

G. Loans from affiliates

For the six months periods ended June 30, 2012 and 2011, loans from affiliates and related interest expenses was as follows:

	June 30, 2012		
	Balance	Interest rate %	Interest expense
SCB HK	\$ 7,468,825	0.07~1.38	17,733
SCB Taipei	<u>14,937,650</u>	0.12~1.38	<u>35,186</u>
	<u>\$ 22,406,475</u>		<u>52,919</u>
	June 30, 2011		
	Balance	Interest rate %	Interest expense
SCB Taipei	14,359,321	0.44~0.46	2,870
SCB HK	<u>8,615,593</u>	0.01~1.10	<u>10,948</u>
	<u>\$ 22,974,914</u>		<u>13,818</u>

As of June 30, 2012 and 2011, the interest payables resulting from the above loans from affiliates were \$4,548 thousand and \$13,017 thousand, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

H. Derivative transactions

For the six months periods June 30, 2012 and 2011, derivative transactions engaged with affiliated parties were as follows:

Name	Contracts	Contract duration period	June 30, 2012		Balance sheet	
			Notional	Net valuation adjustment	Account	Balance
SCB	Forward contract	2012.7.2~ 2013.6.3	\$ 228,905,217	513,041	Financial assets at fair value through profit or loss	970,855
					Financial liabilities at fair value through profit or loss	(457,814)
	Cross currency swap	2012.9.28~ 2012.10.12	16,654,603	282,581	Financial assets at fair value through profit or loss	563,875
					Financial liabilities at fair value through profit or loss	(281,294)
	Interest rate derivative	2012.12.11~ 2013.8.13	6,996,795	-	Financial assets at fair value through profit or loss	-
	Interest rate swap	2012.6.30~ 2022.3.7	37,246,499	(53,460)	Financial assets at fair value through profit or loss	387,368
					Financial liabilities at fair value through profit or loss	(440,828)
Option contract	2012.7.2~ 2014.6.20	84,103,516	(582,309)	Financial assets at fair value through profit or loss	108,092	
				Financial liabilities at fair value through profit or loss	(690,401)	
Commodity swap	2012.7.6~ 2012.12.6	2,305,015	(77,067)	Financial assets at fair value through profit or loss	23,547	
				Financial liabilities at fair value through profit or loss	(100,614)	
SCB Singapore	Forward contract	2012.7.3~ 2012.12.27	24,946,893	41,437	Financial assets at fair value through profit or loss	199,027
					Financial liabilities at fair value through profit or loss	(157,590)
SCB Tokyo	Forward contract	2012.7.2	299,878	(769)	Financial assets at fair value through profit or loss	-
					Financial liabilities at fair value through profit or loss	(769)
SCB HK	Forward contract	2012.7.3~ 2013.6.8	11,823,822	5,104	Financial assets at fair value through profit or loss	20,041
					Financial liabilities at fair value through profit or loss	(14,937)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Name	Contracts	Contract duration period	June 30, 2011		Balance sheet	
			Notional	Net valuation adjustment	Account	Balance
SCB	Forward contract	2011.7.1~ 2013.4.24	\$ 243,108,454	1,748,515	Financial assets at fair value through profit or loss	2,760,586
					Financial liabilities at fair value through profit or loss	(1,012,071)
	Cross currency swap	2011.9.27~ 2012.10.12	49,750,231	(79,504)	Financial assets at fair value through profit or loss	1,836,982
					Financial liabilities at fair value through profit or loss	(1,916,486)
	Commodity swap	2011.8.20~ 2012.1.1	4,311,718	62,115	Financial assets at fair value through profit or loss	147,114
					Financial liabilities at fair value through profit or loss	(84,999)
	Interest rate derivative	2011.7.8~ 2013.8.13	15,915,872	(27,873)	Financial assets at fair value through profit or loss	8,638
Financial liabilities at fair value through profit or loss					(36,511)	
Interest rate swap	2011.7.5~ 2015.10.20	57,625,706	(912,151)	Financial assets at fair value through profit or loss	593,093	
				Financial liabilities at fair value through profit or loss	(1,505,244)	
Option contract	2011.7.1~ 2013.6.20	77,888,313	(337,608)	Financial assets at fair value through profit or loss	111,971	
				Financial liabilities at fair value through profit or loss	(449,579)	
SCB Singapore	Forward contract	2011.7.1~ 2011.12.30	26,867,509	132,293	Financial assets at fair value through profit or loss	286,038
					Financial liabilities at fair value through profit or loss	(153,745)

- I. As of June 30, 2012 and 2011, the fair values of financial debentures acquired from affiliates, which were recognized as available-for-sale financial assets were as follows:

Name	Fair value	
	June 30, 2012	June 30, 2011
SCB HK	\$ 5,206,667	4,653,569

- J. As of June 30, 2012 and 2011, financial debenture payables deriving from the issuance of financial debentures to affiliates were as follows:

Name	Bond (note)	June 30, 2012	June 30, 2011
SCB	98-2	\$ 4,481,295	4,307,796
SCB	98-3	4,481,295	4,307,796

Note: The issuance conditions and details of financial debentures are stated in note 4(13).

For the six months periods ended June 30, 2012 and 2011, the interest expense on the above transaction were \$172,206 thousand and \$161,456 thousand, respectively, and the interest payables on the above transaction were \$18,910 thousand and \$17,113 thousand, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

- K. 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, 2011, unrealized gains from affiliated-company transactions amounted to \$22,597 thousand, recorded as other liabilities. On December 21, 2011, Standard Chartered Life Insurance Agency Co., Ltd. sold the above buildings.
- L. For the six months period ended June 30, 2012, head office administration fees, support expenses arising from regional headquarter, and wholesale banking operation were \$555,686 thousand, \$194,814 thousand, and \$137,218 thousand, respectively. For the six months period ended June 30, 2011, head office administration fee, support expenses arising from regional headquarter, and wholesale banking operation were \$498,481 thousand, \$296,829 thousand, and \$157,995 thousand, respectively. As of June 30, 2012 and 2011, head office administration fees and other expenses arising from professional technical support payables to SCB were \$4,621,076 thousand and \$2,658,132 thousand, respectively, recorded under accounts payables—related parties. Moreover, for the six months periods ended June 30, 2012 and 2011, the royalty expenses for obtaining the right to use intellectual property of SC PLC Group amounted to \$20,584 thousand and \$27,603 thousand, respectively. As of June 30, 2012 and 2011, the royalty expenses payable to SCB were \$73,868 thousand and \$110,546 thousand, respectively, recorded under accounts payables—related parties.
- M. For the six months periods ended June 30, 2012 and 2011, the related cost of the Executive Share Option Scheme amounted to \$47,183 thousand and \$60,507 thousand, respectively. As of June 30, 2012 and 2011, accounts payable to SCB for the share-based payment scheme costs amounted to \$450,635 thousand and \$341,504 thousand, respectively, recorded under accounts payables—related parties.
- N. For the six months period ended June 30, 2011, the Bank received USD141,000 thousand from SCB for the recovery on the structured notes payments made previously.
- O. For the six months periods ended June 30, 2012 and 2011, expenses resulting from operating activities with affiliates were as follows:

	June 30, 2012	June 30, 2011
Technical support mandate service:		
SCB	\$ 14,349	54,559
Other	-	405
Total	<u>\$ 14,349</u>	<u>54,964</u>
Information technology service fees:		
Scope International Private Ltd.	\$ 37,287	29,561
Scope International (M) Sdn. Bhd	37,349	35,769
Other	-	5,304
Total	<u>\$ 74,636</u>	<u>70,634</u>

- P. As of June 30, 2012 and 2011, the deposits of Standard Chartered Life Insurance Agency Co., Ltd. were \$432,407 thousand and \$136,957 thousand, respectively, and the interest expenses were \$1,524 thousand and \$490 thousand, respectively, and the interest payables \$13 thousand and \$30 thousand, respectively. The deposits of Taiwan Standard Chartered Insurance Agency Co., Ltd. were \$30,868 thousand and \$23,590 thousand, respectively, and the interest expenses were \$123 thousand and \$50 thousand, respectively, and the interest payables \$3 thousand and \$5 thousand, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

- Q. As of June 30, 2012 and 2011, the accounts receivable that the Bank supported Standard Chartered Life Insurance Agency Co., Ltd. for its sales were \$141,700 thousand and \$77,500 thousand, respectively, and the related service income were \$157,065 thousand and \$78,080 thousand, respectively. The accounts receivable that the Bank supported Taiwan Standard Chartered Insurance Agency Co., Ltd. for its sales were \$6,350 thousand and \$5,400 thousand, respectively, and the related service income were \$7,627 thousand and \$4,052 thousand, respectively.
- R. For the six months period ended June 30, 2012, the Bank has signed rental contracts with SCB Taipei. Rental amount was \$2,312 thousand.

(6) Pledged Assets

Pledged assets	Pledged for	Amount	
		June 30, 2012	June 30, 2011
Bonds (recorded as available-for-sale financial assets)	Provisional seizure	\$ 173,000	243,800
	Securitization of mortgage loans	300,000	700,000
Bonds (recorded as accounts receivables)	Provisional seizure	11,200	-
Total		<u>\$ 484,200</u>	<u>943,800</u>

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

Security deposits	Purpose	Amount	
		June 30, 2012	June 30, 2011
Negotiable Certificates of Deposit – Bonds (recorded as available-for-sale financial assets)	Reserve for trust funds	\$ -	25,000
	Reserve for indemnity obligations	150,000	150,000
	Security deposits for bill trading operations	100,000	50,000
	Security deposits for futures trading	35,000	35,000
	Security deposits for security brokerage	225,000	200,000
		<u>510,000</u>	<u>460,000</u>
Certificates of deposits (recorded as refundable deposits)	Clearing account reserve	100,000	100,000
	Security deposits for bond proprietary trading and underwriting	10,000	10,000
Total		<u>\$ 620,000</u>	<u>570,000</u>

(Continued)

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

- 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 trust indemnity obligations are provided by deposits placed in the Central Bank of China for conducting a trust business.
- 3) Assets pledged for provisional seizure are provided by collateral placed with the court in order to execute the Bank's right over debtors' properties.
- 4) Security deposits for bill trading are provided by deposits placed in the Central Bank of China for the Bank's bill trading business.
- 5) 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.
- 6) The cash deposited in the clearing account reserve were both \$40,000 thousand as of June 30, 2012 and 2011.
- 7) 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.
- 8) 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.
- 9) Bid for 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 amount of \$61,561 thousand were both recognized as fee income for the six months periods ended June 30, 2012 and 2011, and the remaining amount was recorded as other liabilities — unearned receipts.

- 2) Significant purchase agreements

As of June 30, 2012 and 2011, the Bank had construction agreements for expansion and renovation of buildings amounting to \$31,614 thousand and \$31,109 thousand, respectively. The unpaid amounts of the aforementioned agreements were \$944 thousand and \$3,307 thousand, respectively (recorded as accounts payables).

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

3) Operating leases

The Bank has entered into certain operating leases for its branches. As of June 30, 2012, estimated minimum future lease payments were as follows:

Fiscal year	Amount
For the second half of 2012	\$ 277,576
2013	512,959
2014	452,716
2015	310,873
2016 and thereafter	204,381
	<u>\$ 1,758,505</u>

4) Others

	June 30, 2012	June 30, 2011
Consignment collection for others	\$ 10,006,285	10,158,264
Traveler's checks held on consignment for sale	120,084	128,981
Securities, consignments and goods in custody	1,472,752,383	1,700,417,741
Trust assets	128,713,072	139,982,333
	<u>\$ 1,611,591,824</u>	<u>1,850,687,319</u>
Unused lines of credit	<u>\$ 2,201,872</u>	<u>18,074,836</u>
Other guarantees	<u>\$ 7,523,360</u>	<u>6,492,880</u>
Letters of credit issued	<u>\$ 2,114,226</u>	<u>2,652,324</u>

5) 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, 2012

Trust assets		Trust liabilities	
Bank deposits	\$ 20,366	Accounts payables	\$ 15
Short-term investments	122,175,653	Taxes payables	3
Structured notes	4,456,124	Payables for securities under	
Securities under custody	2,060,896	custody	2,060,896
Other assets	33	Trust capital	126,652,158
Total trust assets	<u>\$ 128,713,072</u>	Total trust liabilities and capital	<u>\$ 128,713,072</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Trust Balance Sheet

June 30, 2011

Trust assets		Trust liabilities	
Bank deposits	\$ 20,877	Accounts payables	\$ 16
Short-term investments	129,100,884	Taxes payables	3
Structured notes	8,063,178	Payables for securities under	
Securities under custody	2,797,364	custody	2,797,364
Other assets	30	Trust capital	137,184,950
Total trust assets	<u>\$ 139,982,333</u>	Total trust liabilities and	<u>\$ 139,982,333</u>
		capital	

Trust Income Statements

	June 30, 2012	June 30, 2011
Trust revenue:		
Interest revenue	\$ 61	72
Common stock cash dividends	401	439
Realized gain on investments	-	1,799
Unrealized gain on investments	<u>5,760</u>	<u>38,542</u>
	<u>6,222</u>	<u>40,852</u>
Trust expenses:		
Management expenses	92	100
Service charges	1	369
Realized loss on investments	-	53
Unrealized loss on investments	231	1,090
Loss on trading of assets	<u>150</u>	<u>190</u>
	<u>474</u>	<u>1,802</u>
Net income before income tax	5,748	39,050
Income tax expense	<u>2</u>	<u>3</u>
Net income after income tax	<u>\$ 5,746</u>	<u>39,047</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

Schedules of investment for trust business

Investment items	June 30, 2012	June 30, 2011
Bank deposits	\$ 20,366	20,877
Short-term investments:		
Bonds	5,729,325	1,665,433
Common stock	3,032,084	3,047,681
Funds	113,414,244	124,387,770
Structured notes	4,456,124	8,063,178
Securities under custody	2,060,896	2,797,364
Other assets	33	30
	<u>\$ 128,713,072</u>	<u>139,982,333</u>

Foreign currency trust business engaged by the Offshore Banking Unit (OBU) as of June 30, 2012 and 2011 was included in the trust balance sheets and schedules of investment for trust business.

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

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

(10) **Others**

1) Summary of staff costs, depreciation and amortization expenses

A summary of staff costs, depreciation and amortization expenses for the six months periods ended June 30, 2012 and 2011, were as follows:

Account	Function	June 30, 2012			June 30, 2011		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Staff costs:							
Salaries		-	2,298,213	2,298,213	-	2,425,743	2,425,743
Labor and health insurance		-	157,305	157,305	-	163,596	163,596
Pension		-	208,458	208,458	-	223,801	223,801
Other		-	131,123	131,123	-	122,045	122,045
Depreciation		-	193,763	193,763	-	276,452	276,452
Amortization		-	14,733	14,733	-	40,249	40,249

2) Reclassification

For the six months period ended June 30, 2011, certain amounts have been reclassified and presented to conform to the financial statements for the six months period ended June 30, 2012. The financial statements are not significantly affected by such reclassifications.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

3) Disclosures in accordance with SFAS No. 28 were as follows:

A. Major foreign currency positions

Currency	June 30, 2012		Currency	June 30, 2011	
	Original currency	NTD equivalent		Original currency	NTD equivalent
USD	63,498	\$ 1,897,028	USD	6,817	\$ 195,771
AUD	1,537	46,679	AUD	1,632	50,263
CNY	(12,507)	(58,624)	HKD	(9,581)	(35,355)
HKD	(17,458)	(67,246)	GBP	(836)	(38,460)
JPY	(795,348)	(298,875)	SGD	(2,043)	(47,733)

B. Profitability

Items		June 30, 2012	June 30, 2011
Return on assets (note 1)	Before income tax	0.37	1.00
	After income tax	0.30	0.85
Return on equity (note 2)	Before income tax	6.13	17.80
	After income tax	4.95	15.24
Net profit ratio (note 3)		26.86	66.20

Unit: %

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

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

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

4) Capital adequacy

Capital adequacy ratios of the Bank are disclosed below:

Item		Period-end	December 31,	June 30, 2011	
		June 30, 2012	2011	June 30, 2011	
Self-owned capital	Tier 1 Capital		38,288,611	40,574,699	38,039,558
	Tier 2 Capital		19,445,198	19,626,805	19,524,051
	Tier 3 Capital		-	-	-
	Total Self-owned Capital		57,733,809	60,201,504	57,563,609
Risk-weighted assets	Credit risk	Standardized approach	308,783,129	308,452,918	310,841,860
		Internal-rating-based approach	-	-	-
		Secularizations	-	-	-
	Operational risk	Basic indicator approach	31,379,656	33,554,611	33,554,611
		Standardized approach / alternative approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	21,437,888	22,005,098	19,535,742
		Internal model approach	-	-	-
	Risk-weighted assets		361,600,673	364,012,628	363,932,213
Capital adequacy ratio		15.97 %	16.54 %	15.82 %	
Tier 1 capital / risk-weighted assets		10.59 %	11.15 %	10.45 %	
Tier 2 capital / risk-weighted assets		5.38 %	5.39 %	5.36 %	
Tier 3 capital / risk-weighted assets		- %	- %	- %	
Common stock / total assets		4.04 %	3.91 %	3.91 %	
Leverage ratio		5.26 %	5.64 %	5.29 %	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

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

Item		Period-end	June 30, 2012	December 31, 2011	June 30, 2011
Self-owned capital	Tier 1 Capital		38,486,065	40,714,489	38,115,203
	Tier 2 Capital		19,642,652	19,766,595	19,599,696
	Tier 3 Capital		-	-	-
	Total Self-owned Capital		58,128,717	60,481,084	57,714,899
Risk-weighted assets	Credit risk	Standardized approach	308,741,898	308,549,573	310,821,835
		Internal-rating-based approach	-	-	-
		Secularizations	-	-	-
	Operational risk	Basic indicator approach	31,816,384	33,361,767	33,361,767
		Standardized approach / alternative approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	21,437,888	22,005,098	19,535,742
		Internal model approach	-	-	-
		Risk-weighted assets		361,996,170	363,916,439
Capital adequacy ratio			16.06 %	16.62 %	15.87 %
Tier 1 capital / risk-weighted assets			10.63 %	11.19 %	10.48 %
Tier 2 capital / risk-weighted assets			5.43 %	5.43 %	5.39 %
Tier 3 capital / risk-weighted assets			- %	- %	- %
Common stock / total assets			4.05 %	3.92 %	3.91 %
Leverage ratio			5.29 %	5.66 %	5.30 %

5) Foreign currency financial assets and liabilities

As of June 30, 2012 and 2011, the foreign currency financial assets and liabilities as follows:

	June 30, 2012			June 30, 2011		
	Foreign currency	Exchange rate	New Taiwan dollars	Foreign currency	Exchange rate	New Taiwan dollars
Financial assets						
Monetary items						
USD	3,990,234	29.88	\$ 119,209,438	1,677,663	28.72	48,180,195
Non-monetary items						
USD	316,636	29.88	9,459,581	678,997	28.72	19,499,862
Financial liabilities						
Monetary items						
USD	5,130,975	29.88	153,289,422	4,133,551	28.72	118,709,965
Non-monetary items						
USD	548,415	29.88	16,384,061	966,565	28.72	27,758,429

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

6) IFRS transition disclosure requirements

Please refer to the consolidated financial statements for the Company for the six months period ended June 30, 2012.

(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	\$ 272,084	\$ 530,000	Payment Received	\$ 232,625	Pei Qian Co., Ltd.	None	To avoid future violation of the Banking Law regarding bank's investment of real estate	Referring to the appraisal report	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.
- F. Information regarding selling of non-performing loans:
- a. Summary table for sale of non-performing loans

Transaction date	Counterparty	Content	Book value	Price	Gain from sale	Attachment clause	Relationship
2012.5.25	Taiwan Cooperative Asset Management Co., Ltd.	Mortgage & corporate finance	37,062	139,397	99,045	Repurchase agreement	Non-related party
2012.5.31	Taiwan Cooperative Asset Management Co., Ltd.	Credit card, credit loan & corporate finance	-	266,026	258,105	Repurchase agreement	Non-related party

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

- 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 %	367,804	109,560	300	-	300	100.00 %	-
Taiwan Standard Chartered Insurance Agency Co., Ltd.	No. 85, Chung-Zeng Road, Hsinchu, Taiwan	Property insurance agent	100.00 %	27,104	5,769	300	-	300	100.00 %	-
Fuji Enterprise Management Consulting Co., Ltd.	6-7F., No.258, Sec. 4, Ren-ai Rd., Da-an District, Taipei City 10687, Taiwan	Financial securities services	0.99 %	-	-	20	-	20	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 %	21,550	-	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	-	5,119	-	5,119	1.14 %	-
Taipei Forex Inc.	8F., No.400, Sec. 2, Bade Rd., Songshan District, Taipei City 10556, Taiwan	Foreign exchange and foreign currency lending services	3.18 %	6,673	-	630	-	630	3.18 %	-
TSC Bio Venture Management, Inc.	11F.-1, No.176, Sec. 1, Keelung Rd., Xinyi District, Taipei City 11070, Taiwan	Venture capital services	5.00 %	16,585	-	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 %	7,568	-	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 %	-

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the 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	
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	9F., No.333, Fushing N. Rd., Songshan District, Taipei City 10544, Taiwan	Information technology services	-	-	-	-	-	-	-	Note 1
Taiwan Depository and Clearing Corporation	11F., No.363, Fushing N. Rd., Songshan District, Taipei City 10542, Taiwan	Securities custodian	0.17 %	9,277	-	545	-	545	0.17 %	-
Taiwan Cooperative Financial Holdings	14F., No. 85, Sec 2, Nan Jing Dong Rd., Zhongshan District, Taipei City, Taiwan	Financial securities services	0.07 %	80,839	-	4,593	-	4,593	0.07 %	Note 2

Note 1: Taiwanpay Corporation completed the process of winding up on June 13, 2012.

Note 2: Former Taiwan Cooperative Bills Finance Corporation was restructured into Taiwan Cooperative Financial Holdings Co., Ltd. on of December 1, 2011.

- B. Lending to other parties: none.
- C. Guarantees and endorsements for other parties: none.
- D. Information regarding securities held: 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.
- 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.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to the Financial Statements

- 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) Operating Segment Financial Information

Please refer to the consolidated financial statements for the Company for the six months period ended June 30, 2012.

Standard Chartered Bank (Taiwan) Limited
Cash and Cash Equivalents
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Cash on hand:		
NTD		\$ 4,208,846
USD	USD5,817@29.8753	173,798
JPY	JPY334,898@0.3758	125,848
HKD	HKD27,486@3.8519	105,872
EUR	EUR1,655@37.5281	62,124
GBP	GBP236@46.6655	11,031
CNY	CNY1,258@4.6872	5,898
SGD	SGD55@23.5147	1,293
	Subtotal	<u>4,694,710</u>
Deposits with other banks	Royal Bank of Canada	570,772
	Credit Suisse	241,191
	Bank of Taiwan	117,292
	Westpac	98,200
	Shanghai Commercial & Savings Bank	85,589
	JP Morgan Chase	57,868
	Taiwan Business Bank	36,881
	Others (Note)	<u>228,522</u>
	Subtotal	<u>1,436,315</u>
Deposits with affiliates	SCB China	796,031
	SCB Singapore	435,867
	SCB HK	423,776
	SCB Tokyo	213,513
	Others (Note)	<u>227,231</u>
	Subtotal	<u>2,096,418</u>
Total		<u><u>\$ 8,227,443</u></u>

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Balances at Central Bank, Loans and Advances
to Banks
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Balances at Central Bank:		
Reserve for deposits	Reserve deposits for deposits – checking account	\$ 9,825,725
	Reserve deposits for deposits – demand account	15,677,028
Reserve for deposits – foreign currency		179,252
Reserve for deposits – settlement accounts		<u>812,656</u>
	Subtotal	<u>26,494,661</u>
Loans and advances to other banks	CHUNGHWA POST CO., LTD. TPE	3,000,000
	BK OF TAIWAN	2,000,000
	CHINATRUST COMMERCIAL BK TAIPEI	2,000,000
	DBS BANK LTD. TPE	1,800,000
	HUA NAN COML BK LTD. TAIPEI	1,000,000
	MEGA INT COMM BANK CO., LTD. TAIPEI	1,000,000
	TAIPEI FUBON COMMERCIAL BK CO., LTD.	1,000,000
	BANK SINOPAC CO., LTD. TPE	700,000
	BK OF NEW YORK TAIPEI	700,000
	TAISHIN INTL BK TAIPEI	500,000
	FIRST COMMERCIAL BANK TAIPEI USD50,000@29.8753	1,493,765
	CHINA DEVELOPMENT IND BANK TPE USD30,000@29.8753	896,259
	TAIWAN COOPERATIVE BANK SEA USD10,000@29.8753	<u>298,753</u>
	Subtotal	<u>16,388,777</u>
Loans and advances to affiliates	SCB Taipei	
	TWD	6,761,200
	USD647,937@29.8753	19,357,300
	JPY650,000@0.3758	<u>244,256</u>
	Subtotal	<u>26,362,756</u>
Total		<u><u>\$ 69,246,194</u></u>

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Financial Assets at Fair Value Through Profit or Loss
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Items	Details	Shares/Units	Par value	Total	Interest rate	Book value	Fair value		Note
							Unit price	Total	
Trading financial assets:									
Debt instruments:									
	Government bonds		\$	7,050,000	-	7,079,482	-	7,075,261	
	Corporate bonds			7,240,000	-	7,254,696	-	7,253,769	
	Negotiable certificates of deposits			11,000,000	-	11,000,000	-	11,000,314	
	Financial debentures			500,000	-	500,657	-	500,657	
	Subtotal					<u>25,834,835</u>		<u>25,830,001</u>	
Derivatives:									
	Option contracts							799,946	Note
	Forward contracts							3,148,389	Note
	Cross currency swaps							1,638,973	Note
	Interest rate swaps							6,176,866	Note
	Interest rate derivatives							30,700	Note
	Commodity swaps							123,840	Note
	Subtotal					<u>-</u>		<u>11,918,714</u>	
Total						<u>25,834,835</u>		<u>\$ 37,748,715</u>	

Note: Contracts amount (notional amount) please refer to note 4(20)

Standard Chartered Bank (Taiwan) Limited
Accounts Receivables
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Accounts receivables	Receivable for options premium	\$ 32,797
	Earned revenue receivables	61,848
	Wealth management receivables	325,911
	Receivables for fixed income financial assets settlement	<u>2,619,589</u>
	Subtotal	<u>3,040,145</u>
Acceptance receivables		<u>632,866</u>
Factoring loan receivable, without recourse		<u>27,786,879</u>
Interest receivables	Loans and advances to banks	762
	Debt instruments	1,112,674
	Loans	611,654
	Others (Note)	<u>64,927</u>
	Subtotal	<u>1,790,017</u>
Credit card receivables		<u>5,746,065</u>
Tax refund receivables		<u>115,817</u>
Accounts receivables – related parties		<u>352,169</u>
Others	Interbank transfer fee	<u>164,438</u>
Less: allowance for doubtful accounts – accounts receivables		<u>403,264</u>
Total		<u>\$ 39,225,132</u>

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Loans and Advances to Customers
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Negotiations and discounts		\$ 4,167,242
Short-term unsecured loans and overdrafts		52,561,885
Short-term secured loans		5,074,215
Medium-term unsecured loans		67,064,847
Medium-term secured loans		3,327,001
Long-term unsecured loans		6,499,800
Long-term secured loans		216,301,671
Non-accrual loans		<u>1,359,092</u>
Subtotal		356,355,753
Discount/premium adjustments on loans		193,788
Less: allowance for doubtful accounts		<u>4,349,788</u>
Total		<u><u>\$ 352,199,753</u></u>

Standard Chartered Bank (Taiwan) Limited
Available-for-sale financial Assets
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Name of financial instrument	Detail	Shares or Units	Face value	Total	Interest rate	Book value	Valuation adjustment	Fair value		Date of repayment	Collateralization
								Unit price	Total		
Treasury bills		-	-	\$ 6,575,000	-	6,565,141	1,679	-	\$ 6,566,820	-	
Government bonds		-	-	9,181,200	-	9,513,424	20,583	-	9,534,007	-	Note 1 and Note 2
Negotiable certificates of deposits		-	-	165,060,000	-	165,060,000	26,855	-	165,086,855	-	Note 1
Financial debentures		-	-	6,275,060	-	4,585,780	923,665	-	5,509,445	-	
Corporate bonds		-	-	600,000	-	599,880	10,685	-	610,565	-	
Beneficiary certificates		-	-	1,800,791	-	1,800,791	(63,721)	-	1,737,070	-	
Equity instruments		-	-	94,546	-	94,546	(13,707)	-	80,839	-	
						188,219,562	906,039		\$ 189,125,601		

Note 1: Par value NT\$983,000 thousand for collateralization, more details refer to Note (6) Pledged Assets.

Note 2: The fair value of financial assets for fair value hedge is \$1,224,514 thousand, and the mark-to-market value adjustment is \$10,329 thousand.

Standard Chartered Bank (Taiwan) Limited
Investment in Associates Under Equity Method

June 30, 2012

(Expressed in thousands of New Taiwan dollars)

(Except for market unit price which is in New Taiwan Dollars)

Name of investee	Beginning balance		Increase		Decrease		Investment income	Ending balance		Market value or net equity		Collate realization
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount	Unit price	Total price (note 1)	
Standard Chartered Life Insurance Agency Co., Ltd.	300	\$ 258,244	-	-	-	-	109,560	300	367,804	1,226.01	367,804	None
Taiwan Standard Chartered Insurance Agency Co., Ltd.	300	21,335	-	-	-	-	5,769	300	27,104	90.35	27,104	//
		<u>\$ 279,579</u>		<u>-</u>		<u>-</u>	<u>115,329</u>		<u>394,908</u>		<u>394,908</u>	

Note 1: SCBTL invested in non-public companies which is not traded in public market, and only listed their net equity value on the balance sheet date.

Standard Chartered Bank (Taiwan) Limited
Other Financial Assets
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Derivative financial asset for hedging	Fair value hedge and cash flow hedge	\$ 575,452
Financial assets carried at cost	Refer to details on page 82	158,002
Total		\$ 733,454

Standard Chartered Bank (Taiwan) Limited
Other Financial Assets - Change in Financial Assets Carried at Cost
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Name of investee	Beginning balance		Increase		Decrease		Ending balance		Net equity value		Collateralization
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Unit price	Total price (Note 1)	
Fuji Enterprise Management Consulting Co., Ltd.	20	\$ -	-	-	-	-	20	-	-	- (note 2)	None
Taiwan Small and Medium Enterprises Development Corp.	3,417	29,000	-	-	-	-	3,417	29,000	7.19	24,573	"
Financial Information Service Co., Ltd.	5,119	45,500	-	-	-	-	5,119	45,500	15.83	81,025	"
Taipei Forex Inc.	630	6,673	-	-	-	-	630	6,673	27.61	17,395	"
TSC Bio Venture Management, Inc.	2,025	20,250	-	-	-	-	2,025	20,250	9.78	19,809	"
Liyu Venture Investment, Inc.	1,008	10,080	-	-	-	-	1,008	10,080	8.27	8,340	"
Windance Co., Ltd.	18,850	188,500	-	-	-	-	18,850	188,500	-	- (note 2)	"
Taiwan Asset Service Corporation	5,000	50,000	-	-	-	-	5,000	50,000	10.64	53,189	"
Yang Guang Asset Management Company	85	849	-	-	-	-	85	849	11.36	965	"
Taiwanpay Corporation	197	2,468	-	-	197	2,468	-	-	-	- (note 3)	"
Taiwan Depository and Clearing Corporation	520	9,277	25	-	-	-	545	9,277	45.59	23,691	"
Subtotal		362,597		-		2,468		360,129		228,987	
Less: Accumulated impairment		204,595		-		2,468		202,127		-	
		<u>\$ 158,002</u>		<u>-</u>		<u>-</u>		<u>158,002</u>		<u>228,987</u>	

Note 1: Financial assets carried at cost are SCBTL investments in non-public companies, and these assets are not traded in open market; therefore, only their net equity value are listed.

Note 2: As of June 30, 2012, the Company has winded up, but has not liquidated yet.

Note 3: On June 13, 2012, the Company has winded up and completed the process of liquidation.

Standard Chartered Bank (Taiwan) Limited
Property and Equipment
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Items	Beginning balance	Increase	Decrease	Reclassification	Ending balance	Collateralization
Cost:						
Land	\$ 3,136,106	-	76,640	66,896	3,126,362	None
Buildings	2,939,399	-	263,867	63,375	2,738,907	"
Office equipment	755,261	-	19,847	-	735,414	"
Leasehold improvements	821,300	1,833	232,045	-	591,088	"
Other equipment	<u>1,491,821</u>	<u>15,835</u>	<u>173,676</u>	<u>-</u>	<u>1,333,980</u>	"
Subtotal	<u>9,143,887</u>	<u>17,668</u>	<u>766,075</u>	<u>130,271</u>	<u>8,525,751</u>	
	<u>\$ 9,143,887</u>	<u>17,668</u>	<u>766,075</u>	<u>130,271</u>	<u>8,525,751</u>	

Standard Chartered Bank (Taiwan) Limited
Accumulated Depreciation for Property and Equipment

June 30, 2012

(Expressed in thousands of New Taiwan dollars)

Items	Beginning balance	Increase	Decrease	Reclassification	Ending balance
Buildings	\$ 826,579	30,450	78,804	18,697	796,922
Office equipment	590,628	42,591	18,510	-	614,709
Leasehold improvements	534,755	57,865	232,045	-	360,575
Other equipment	1,115,036	58,696	163,165	-	1,010,567
Total	\$ 3,066,998	189,602	492,524	18,697	2,782,773

Standard Chartered Bank (Taiwan) Limited
Accumulated Impairment for Property and Equipment

June 30, 2012

(Expressed in thousands of New Taiwan dollars)

Items	Beginning balance	Increase	Decrease	Reclassification	Ending balance
Buildings	\$ -	-	-	16,522	16,522

Standard Chartered Bank (Taiwan) Limited
Other Assets
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

<u>Items</u>	<u>Abstract</u>	<u>Amount</u>
Deferred income tax assets, net		\$ <u>1,892,974</u>
Idle assets, net	Idle assets	368,875
	Less: accumulated depreciation	61,600
	accumulated impairment	<u>136,788</u>
		<u>170,487</u>
Assets leased to others, net	Assets leased to others	395,051
	Less: accumulated depreciation	48,771
	accumulated impairment	<u>2,695</u>
		<u>343,585</u>
Refundable deposits	Securitization of debt margins	46,355
	Rental deposits	181,253
	Clearing and settlement fund	171,772
	Credit card deposits	59,903
	Others (note)	<u>54,707</u>
		<u>513,990</u>
Others (Note)	Prepayments and etc.	<u>182,807</u>
Total		<u>\$ <u>3,103,843</u></u>

Note: the amount of each item does not exceed 5% of this account's total ending balance.

Standard Chartered Bank (Taiwan) Limited

Idle Assets

June 30, 2012

(Expressed in thousands of New Taiwan dollars)

Items	Beginning balance	Increase	Decrease	Reclassification	Ending balance	Collateralization
Cost						
Land	\$ 250,973	-	6,810	(84,451)	159,712	None
Buildings	297,741	-	13,901	(74,677)	209,163	"
	<u>548,714</u>	<u>-</u>	<u>20,711</u>	<u>(159,128)</u>	<u>368,875</u>	
Accumulated depreciation	83,260	2,620	2,724	(21,556)	61,600	
Accumulated impairment	96,525	61,041	1,560	(19,218)	136,788	
	<u>\$ 368,929</u>	<u>(63,661)</u>	<u>16,427</u>	<u>(118,354)</u>	<u>170,487</u>	

Standard Chartered Bank (Taiwan) Limited
Assets Leased to Others
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Items	Beginning balance	Increase	Decrease	Reclassification	Ending balance	Collateralization
Cost						
Land	\$ 231,816	-	-	17,555	249,371	None
Buildings	134,378	-	-	11,302	145,680	"
	<u>366,194</u>	<u>-</u>	<u>-</u>	<u>28,857</u>	<u>395,051</u>	
Accumulated depreciation	44,370	1,541	-	2,860	48,771	
Accumulated impairment	-	-	-	2,695	2,695	
	<u>\$ 321,824</u>	<u>(1,541)</u>	<u>-</u>	<u>23,302</u>	<u>343,585</u>	

Standard Chartered Bank (Taiwan) Limited
Deposits by Central Bank and other banks
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Items	Details	Amount
Deposits by banks	Chunghwa Post Co.	\$ 1,420,206
	SCB Taipei	299,704
	Credit Suisse	4,350
	Others (Note)	584
		<u>1,724,844</u>
Overdraft from Banks	SCB New York	2,367,997
	Other (Note)	20,081
		<u>2,388,078</u>
Loans from banks	Bank of Taiwan	8,861,337
	Northern Trust Company London	2,987,530
	Hua Nan Bank	1,515,856
	Mega International Commercial Bank	1,125,842
	International Indonesia	1,105,386
	CIMB Bank Berhad Kuala Lumpur	896,259
	Others (Note)	298,753
	<u>16,790,963</u>	
Deposits and loans from affiliates	SCB Taipei	14,937,650
	SCB HK	7,468,825
		<u>22,406,475</u>
Total		<u><u>\$ 43,310,360</u></u>

Note: The amount of each item does not exceed 5% of this account's total ending balance.

Standard Chartered Bank (Taiwan) Limited
Financial Liabilities at Fair Value through Profit or Loss
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Items	Details	Shares/units	Face value	Total	Interest rate	Book value	Fair value		Note
							Par value	Total	
Trading financial liabilities:									
Derivatives:									
	Option contracts							798,619	Note
	Forward contracts							2,535,841	Note
	Cross currency swaps							1,456,278	Note
	Interest rate swaps							5,828,303	Note
	Commodity swaps							123,840	Note
Total						-		\$ 10,742,881	

Note: Contract amounts (notional amounts) please refer to Note 4(20).

Standard Chartered Bank (Taiwan) Limited
Accounts Payables
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Detail	Amount
Accounts payables		\$ <u>58,317</u>
Interest payables		<u>1,079,402</u>
Other accounts payables		
	Accrued expenses	1,074,271
	Income tax payables	132,905
	Payables for receipts under custody	<u>524,319</u>
Subtotal		<u>1,731,495</u>
Acceptance payables		<u>632,866</u>
Other payables		
	Payables for fixed income financial liabilities settlement	604,514
	Temporary receipts	529,030
	Sundry client creditors	214,493
	Cheque collection	37,774
	Others (Note)	<u>444,353</u>
Subtotal		<u>1,830,164</u>
Total		<u>\$ <u>5,332,244</u></u>

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Deposits and Remittances
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Checking deposits		\$ 4,552,071
Demand deposits		158,705,205
Time deposits		152,075,267
Savings deposits	Savings deposits	123,740,371
	Time savings deposits	93,006,918
Remittances		<u>136,209</u>
Total		<u><u>\$ 532,216,041</u></u>

Standard Chartered Bank (Taiwan) Limited
Other Financial Liabilities
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Structured deposits		\$ 15,309,860
Derivative financial liabilities for hedging		<u>16,116</u>
Total		<u><u>\$ 15,325,976</u></u>

Standard Chartered Bank (Taiwan) Limited
Financial Debentures
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Bond	Conditions for trading			Financial debentures		Transaction amount
	Issuing date	Maturity date	Coupon rate%	Type	Face value	
91-1A subordinated debentures	2002.7.19	2007.7.19	(Note 1)	A	\$ 1,000	1,000
94-1 subordinated debentures	2005.1.28	(Note 2)	(Note 3)	-	1,000	3,900
94-2 subordinated debentures	2005.1.28	(Note 2)	(Note 3)	-	1,000	4,500
98-1 subordinated debentures	2009.10.28	2019.10.28	(Note 4)	-	100	10,000,000
98-2 subordinated debentures	2009.12.11	(Note 2)	(Note 5)	-	4,798,704 (Note 6)	4,481,295
98-3 subordinated debentures	2009.12.11	(Note 2)	(Note 5)	-	4,798,704 (Note 6)	4,481,295
100-1 senior unsecured bond	2011.5.19	2013.5.19	(Note 7)	A	1,000	800,000
	2011.5.19	2014.5.19	"	B	1,000	100,000
	2011.5.19	2015.5.19	"	C	1,000	650,000
	2011.5.19	2016.5.19	"	D	1,000	6,150,000
	2011.5.19	2017.5.19	"	E	1,000	1,000,000
	2011.5.19	2018.5.19	"	F	1,000	2,550,000
	2011.5.19	2013.5.19	"	G	1,000	3,700,000
	2011.5.19	2016.5.19	"	H	1,000	400,000
	2011.5.19	2018.5.19	"	I	1,000	4,000,000
100-2 senior unsecured bond	2011.6.8	2016.6.8	(Note 8)	-	1,000	500,000
100-3 senior unsecured bond	2011.6.23	2013.6.23	(Note 9)	A	1,000	950,000
	2011.6.23	2013.6.23	"	B	1,000	700,000
	2011.6.23	2016.9.23	"	C	1,000	1,100,000

Standard Chartered Bank (Taiwan) Limited
Financial Debentures (Continued)
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Bond	Conditions for trading			Financial debentures		Transaction amount
	Issuing date	Maturity date	Coupon rate%	Type	Face value	
100-4 senior unsecured bond	2011.6.29	2014.6.29	(Note 10)	A	\$ 1,000	2,000,000
	2011.6.29	2013.6.29	"	B	1,000	400,000
	2011.6.29	2014.6.29	"	C	1,000	1,000,000
	2011.6.29	2021.6.29	"	D	1,000	2,000,000
101-1 senior unsecured bond	2012.1.17	2014.1.17	(Note 11)	A	1,000	7,000,000
	2012.1.17	2014.1.17	"	B	1,000	700,000
	2012.1.17	2015.1.17	"	C	1,000	600,000
101-2 senior unsecured bond	2012.5.24	2014.5.24	(Note 12)	-	1,000	6,700,000
						61,971,990
Mark-to-market adjustment on hedged items						382,814
						\$ 62,354,804

Note 1: Annual interest rate is 4.25%, for the first 3 years and 4.50% for the last 2 years.

Note 2: No maturity date.

Note 3: Based on the average one-year regular floating rate of the nine largest banks plus 1.493%.

Note 4: Annual interest rate is 2.90% for the first 5 years and 3.40% for the last 5 years.

Note 5: Annual interest rate from issuance date to June 11, 2015, is USD 3M LIBOR plus 3.33%, and USD 3M LIBOR plus 4.33% after June 11, 2015.

Note 6: Face value is USD150,000 thousand.

Note 7: Annual interest rate of 100-1A:1.03%; B:1.17%; C:1.32%; D:1.45%; E:1.51%; F:1.60%; G, H and I: TWD 90-day CP interest rate.

Note 8: Annual interest rate: 1.451%; interest payable quarterly.

Note 9: Annual interest rate of 100-3 A:1.04%; B: TWD 90-day CP interest rate; C:1.40%; interest payable quarterly.

Note 10: Annual interest rate of 100-4 A:1.32%; B, C and D: TWD 90-day CP interest rate plus 0.15%.

Note 11: Annual interest rate of 101-1 A: 1.05%; B:TWD 90-day CP interest rate plus 0.25%; C:1.09%.

Note 12: Annual interest rate of 101-2 1.05%.

Standard Chartered Bank (Taiwan) Limited
Other Liabilities
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Accrued pension liabilities		\$ 801,305
Unearned receipts		419,228
Taxes payable		496,916
Deposits received		126,348
Receipts under custody for derivatives		102,919
Deferred revenue		82,306
Others (Note)		<u>243,362</u>
		<u><u>\$ 2,272,384</u></u>

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Interest Income
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Interbank transactions	Balances at Central Bank	\$ 42,250
	Loans and advances to banks	159,228
	Subtotal	201,478
Loans and advances to customers	Loans and overdrafts	5,593,411
Credit cards (revolving)		194,163
Financial assets at fair value through profit or loss		112,685
Available-for-sale financial assets		1,105,481
Others (note)		506,814
Total		\$ 7,714,032

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Interest Expenses
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Deposits	Time deposits related	\$ 1,599,411
	Demand deposits related	393,450
	Subtotal	1,992,861
Distributions for trust revenue		92
Deposits by and loans from other banks	Deposits by and loans from other banks	106,061
	Financial debentures	529,846
	Subtotal	635,907
Structured Deposits		58,217
Others (Note)		194
Total		\$ 2,687,271

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Fees and Commission, Net
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Fees and commission income	Trust fees	\$ 1,033,308
	Loan fees	112,231
	Credit card fees	145,027
	Agency commission	65,429
	Remittances and interbank transaction service fee	52,301
	Warranty, imports, exports and acceptance payable fees	54,810
	Others (Note)	104,868
	Subtotal	1,567,974
Fees and commission expenses	Agency commission	105,532
	Interbank transaction service fees	67,950
	Custody fees	52,741
	Others (Note)	8,848
	Subtotal	235,071
Total		\$ 1,332,903

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Gain (Loss) on Financial Assets and Liabilities at Fair Value Through Profit or Loss
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Amount		Total
	Realized (loss) gain	Valuation (loss) gain	
<hr/>			
Trading financial assets and liabilities:			
Debt instruments:			
Government bonds	\$ 9,138	(5,119)	4,019
Negotiable certificates of deposits	-	(433)	(433)
Corporate bonds, financial debentures and treasury bills	<u>43,851</u>	<u>(3,039)</u>	<u>40,812</u>
Subtotal	<u>52,989</u>	<u>(8,591)</u>	<u>44,398</u>
Derivatives	<u>(58,529)</u>	<u>673,417</u>	<u>614,888</u>
Total	<u><u>\$ (5,540)</u></u>	<u><u>664,826</u></u>	<u><u>659,286</u></u>

Standard Chartered Bank (Taiwan) Limited
Realized Gain and Loss on Available-for-sale
Financial Assets
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
<u>Government bonds</u>	<u>Net loss on sale</u>	<u>\$ (9,976)</u>

Standard Chartered Bank (Taiwan) Limited
Other Non-interest Income (Loss) for Sundries, Net
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Other non-interest income for sundries:		
	Net gain on securities brokerage commissions	\$ 57,090
	Rental income	9,643
	Investment income from financial assets carried at cost	3,577
	Others (note)	<u>6,801</u>
	Subtotal	<u>77,111</u>
Other non-interest loss for sundries:		
	Net loss on fair value hedge	<u>(18,560)</u>
Net income		<u><u>\$ 58,551</u></u>

Note: The amount of each item is less than 5% of this account's ending balance.

Standard Chartered Bank (Taiwan) Limited
Staff Costs
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Salaries		\$ 2,298,213
Labor and health insurance		157,305
Pension		208,458
Others		<u>131,123</u>
Total		<u><u>\$ 2,795,099</u></u>

Standard Chartered Bank (Taiwan) Limited
Depreciation and Amortization Expenses
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Depreciation	Land and buildings	\$ 34,611
	Office equipment	42,591
	Leasehold improvements	57,865
	Other equipment	58,696
Subtotal		193,763
Amortization	Computer software	14,733
Total		\$ 208,496

Standard Chartered Bank (Taiwan) Limited
General and Administrative Expenses
June 30, 2012
(Expressed in thousands of New Taiwan dollars)

Items	Amount
Rental expenses	\$ 279,161
Stationary & supplies	66,215
Postage	117,826
Maintenance and repairs expenses	73,186
Advertising expenses	63,111
Premises - utilities	44,465
Taxes and dues	271,503
Professional service fees	48,391
Head office administrative expenses and other technical support fees	887,718
Others (Note)	<u>170,844</u>
Total	<u><u>\$ 2,022,420</u></u>

Note: The amount of each item is less than 5% of this account's ending balance.

STANDARD CHARTERED BANK
(TAIWAN) LIMITED SECURITIES DEPARTMENT
Financial Statements
June 30, 2012 and 2011

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED - SECURITIES DEPARTMENT

Balance Sheet

June 30, 2012 and 2011
(expressed in thousands of New Taiwan dollars)

Assets	June 30,2012		June 30,2011		Liabilities and Stockholders' Equity	June 30,2012		June 30,2011	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4(1))	\$ 33	-	7,918	-	Financial liabilities measured at fair value through profit or loss — current (notes 4(8) and (9))	\$ -	-	883,536	3
Financial assets at fair value through profit or loss — current (notes 4(2) and (9))	14,829,687	38	8,519,348	33	Financing securities guaranteed deposits	19,790	-	13,178	-
Bills and bonds investments under reverse sell agreements (note 4(3))	10,746,723	27	2,068,587	8	Financing securities guaranteed proceeds payable	21,789	-	14,536	-
Receivables from securities financing (note 4(4))	532,475	1	802,735	3	Accounts payables	<u>615,957</u>	<u>2</u>	<u>1,233,690</u>	<u>5</u>
Securities refinancing margin deposits	-	-	457	-	Total current liabilities	<u>657,536</u>	<u>2</u>	<u>2,144,940</u>	<u>8</u>
Receivables from securities refinancing	-	-	507	-	Other liabilities:				
Accounts receivables	2,885,953	7	2,174,080	8	Inter-departmental account	<u>36,747,208</u>	<u>93</u>	<u>21,668,838</u>	<u>83</u>
Available-for-sale financial assets — current (notes 4(5) and (9) and 6)	10,438,005	27	12,252,591	47	Total liabilities	<u>37,404,744</u>	<u>95</u>	<u>23,813,778</u>	<u>91</u>
Other current assets	<u>10,857</u>	<u>-</u>	<u>3,316</u>	<u>-</u>	Stockholders' equity:				
Total current assets	<u>39,443,733</u>	<u>100</u>	<u>25,829,539</u>	<u>99</u>	Designated capital	2,000,000	5	2,000,000	8
Property and equipment (note 4(6)):					Unappropriated earnings	190,352	-	156,318	1
Cost:					Unrealized gain on financial assets	<u>33,605</u>	<u>-</u>	<u>79,776</u>	<u>-</u>
Office and other equipment	34,347	-	42,336	-	Total stockholders' equity	2,223,957	5	2,236,094	9
Leasehold improvements	<u>16,475</u>	<u>-</u>	<u>17,082</u>	<u>-</u>					
	50,822	-	59,418	-					
Less: Accumulated depreciation	<u>37,626</u>	<u>-</u>	<u>38,017</u>	<u>-</u>					
Total property and equipment, net	<u>13,196</u>	<u>-</u>	<u>21,401</u>	<u>-</u>					
Intangible assets	-	-	185	-					
Other assets (notes 4(7) and 6)	<u>171,772</u>	<u>-</u>	<u>198,747</u>	<u>1</u>	Significant commitments and contingencies				
Total assets	<u>\$ 39,628,701</u>	<u>100</u>	<u>26,049,872</u>	<u>100</u>	Total liabilities and stockholders' equity	<u>\$ 39,628,701</u>	<u>100</u>	<u>26,049,872</u>	<u>100</u>

See accompanying notes to financial statements.

**STANDARD CHARTERED COMPANY (TAIWAN) LIMITED-SECURITIES
DEPARTMENT**

Statements of Income

**For the six months periods ended June 30, 2012 and 2011
(expressed in thousands of New Taiwan dollars)**

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenue:				
Securities brokerage commissions	\$ 60,546	21	75,377	29
Gain on sale of securities – dealer (note 4(2))	43,019	15	22,199	8
Interest income (notes 4(2) and (5))	186,774	64	131,881	51
Gain on valuation of securities (note 4(2))	-	-	25,738	10
Commission revenue for futures	2,072	-	2,748	1
Other operating income	<u>619</u>	-	<u>2,173</u>	<u>1</u>
Total revenue	<u>293,030</u>	<u>100</u>	<u>260,116</u>	<u>100</u>
Expenses:				
Handling charges – brokers	3,456	1	4,382	2
Handling charges – dealers	1	-	366	-
Handling charges – refinancing	44	-	37	-
Interest expense	44	-	22	-
Loss on valuation of securities (note 4(2))	8,158	3	-	-
Operating expenses (note 10)	89,845	31	94,750	36
Non-operating net losses	<u>1,130</u>	-	<u>4,241</u>	<u>2</u>
Total expenses	<u>102,678</u>	<u>35</u>	<u>103,798</u>	<u>40</u>
Profit from continuing operation before income tax	<u>190,352</u>	<u>65</u>	<u>156,318</u>	<u>60</u>
Net income	<u>\$ <u>190,352</u></u>	<u>65</u>	<u>156,318</u>	<u>60</u>

See accompanying notes to financial statements.

**STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES
DEPARTMENT**

Notes to Financial Statements

June 30, 2012 and 2011

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

(1) Organization

- 1) In October, 1989, Standard Chartered Company (Taiwan) Limited (“SCBTL”) established its first securities brokerage (the “Company”) in Taoyuan and then established several branches to provide securities brokerage service in various districts. In January, 1993, SCBTL founded the pecuniary or securities financing facilities for securities trading. In August, 1995, SCBTL began the brokerage of marketable securities at the over-the-counter. As of June 30, 2012, the total number of branches is 11.
- 2) Currently the Company is authorized to engage in the following businesses :
 - A. Brokerage of marketable securities at the centralized securities exchange market (no face-to-face customer commission and no business office needed);
 - B. In-house marketable securities brokerage at the over-the-counter securities exchange market (no face-to-face customer commission and no business office needed);
 - C. Providing pecuniary or securities financing facilities for securities trading;
 - D. Auxiliary services for futures trading;
 - E. In-house bonds and securitized product (fixed-income securities only) dealership at the over-the-counter securities exchange market.

(2) Significant Accounting Policies

The 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 financial statements, the Chinese version shall prevail.

The Company’s financial statements were prepared in accordance with the “Criteria Governing the Preparation of Financial Reports by Securities Firms”, “Business Entity Accounting Act”, “Regulation on Business Entity Accounting Handling”, and generally accepted accounting principles of the Republic of China. 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 is in conformity with the related regulations that require the use of certain critical accounting assumptions and estimates. It also requires management to exercise judgment in the process of applying the Company’s accounting policies. Therefore, actual realized results could differ from these assumptions and estimates. A summary of significant accounting policies and the measurement basis is as follows:

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.**Notes to Financial Statements**

1) Principles of classifying assets and liability as current and non-current

Current assets include assets resulting from operating activities which are expected to be converted to cash, consumed, or sold within the normal operating period; assets held mainly for trading purposes; assets that are expected to be converted to cash within 12 months of the balance sheet date; cash and cash equivalents that are not to be exchanged or repaid for debt within 12 months of the balance sheet date and are not restricted. Non-current assets are assets which are not classified as current assets.

Current liabilities include liabilities accruing from operating activities which are expected to be repaid within the normal operating period, liabilities that mainly resulted from trading activities, liabilities that are expected to be repaid on demand within 12 months of the balance sheet date, and liabilities for which the Company cannot defer payments until 12 months after the balance sheet date without charges. Non-current liabilities are liabilities which are not classified as current liabilities.

2) Foreign currency transactions

The accounts of the Company are maintained in New Taiwan dollars. Foreign currency transactions are recorded at exchange rates prevailing on the transaction dates. Realized gains or losses resulting from the settlement of assets and liabilities denominated in foreign currencies are charged to current operations. Assets and liabilities denominated in foreign currencies are revalued at the exchange rates prevailing on the balance sheet date. The resulting translation differences are charged to current profit or loss.

3) Cash and cash equivalents

Cash and cash equivalents include cash, petty cash, unrestricted Company accounts and transferred time deposits, treasury bills, commercial paper and Company acceptance notes which are with maturities of three months or less at the date of purchase.

4) Financial assets and liabilities

According to the Statement of Financial Accounting Standards (“SFAS”) No.34 “Accounting for Financial Instruments the Company” classified financial assets and liabilities as financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets.

The related accounting policies adopted by the Company are the same as those of SCBTL; therefore, refer to the summary of significant accounting policies in SCBTL’s financial report.

5) Investments in redeemable bonds and liability of bonds with repurchase agreements

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.**Notes to Financial Statements**

The financing method is adopted to account for bond transactions with terms to redeem and repurchase. Sales of bonds with repurchase terms for financing purposes are recorded as “repurchasable bonds payable”. The bond or bill sold or purchased is treated as collateral for financing transactions and not as sale or purchase of trading securities. Repurchase and redeem as bond and bill transactions are recorded as bonds sold under repurchase agreements and bonds and bills purchased under reverse repurchase agreements, respectively. The difference between the selling and purchase prices during the agreement period for the aforementioned transactions is treated as interest expense or interest income.

6) Margin loans and refinancing

For margin loans undertaken by the Company, the amount financed by the investors for the purchase of securities is recorded as receivable from securities financing. Such loans are secured by the securities purchased by the investors. These securities will be returned to the investors when the financing loans are repaid.

For securities financing transactions, the deposit on securities financing is recorded as financing securities guaranteed deposits. Proceeds from sales of securities financed, less any dealing commission, financing commission, and security exchange tax, are held by the Company as collateral and recorded as financing securities guaranteed proceeds payable. Deposits and proceeds payable are refunded to investors upon the repayment of the loans.

Should the Company have insufficient cash flow when undertaking margin loans, the Company could obtain refinancing from securities finance companies. Such financing is recorded as borrowing for refinancing and the related securities are held by the finance Company as collateral. Similarly, should the Company have insufficient securities position to undertake securities refinancing, the Company can borrow securities from securities finance companies. The deposits on the securities borrowed are recorded as deposits for securities refinancing. The proceeds from the sale of securities borrowed are held by the securities finance companies as collateral and are recorded as receivables from securities refinancing.

7) Allowances for doubtful accounts

Allowance for doubtful accounts is provided by assessing the collectability of the notes and accounts receivables at year-end.

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

8) Property and equipment, and related depreciation

The accounting policies adopted for the Company's property and equipment, and related depreciation are the same as those of SCBTL; therefore, refer to the summary of significant accounting policies in SCBTL's financial report.

9) Assets impairment

The accounting policies adopted for the Company's assets impairment are the same as those of SCBTL; therefore, refer to the summary of significant accounting policies in SCBTL's financial report.

10) Intangible assets

The Company has adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	3 – 5 years
-------------------	-------------

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Changes shall be accounted for as changes in accounting estimates.

11) Deposits

As required by the Regulations Governing Securities Firms ("RGSF"), after completion of corporate registration, a securities firm shall lodge an operating deposit in accordance with the types of securities business the firm engages in. The Company provides deposits as operating guarantee deposits in order to conduct its principal business activities. Such deposits are recorded under other assets – operating deposits – securities settlement fund.

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.**Notes to Financial Statements**

In accordance with the RGSF and the Regulations Governing Payment and Settlement Funds under the Responsibility System for OTC securities trading, the Company deposits an aggregate settlement fund with the Taiwan Stock Exchange Corporation (“TSEC”) and a clearing fund with the OTC in order to conduct securities trading consignments on the centralized securities exchange market and over-the-counter market, respectively. In accordance with OTC Securities Market Regulations Governing Bond Payment Settlement Reserves, the Company deposits settlement reserve to the OTC in order to conduct bonds trading consignments on over-the-counter market before trading bonds via the Electronics Bond Trading System.

12) Inter-departmental account

A Company applying for concurrent operation of securities businesses must set up receivable and payable accounts to record the dealings between the Company and the securities department.

13) Designated capital

A Company applying for concurrent operation of securities businesses must designate operating capital for the securities department’s use.

14) Commitments and contingencies

If a loss from a commitment or contingency is considered probable and the amount of loss can be reasonably estimated, the loss is recorded in the current year. Otherwise, commitments and contingencies are only disclosed in the notes to the financial statements.

15) Revenue and cost recognition

- A. Brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date.
- B. Interest income or expense of margin loans and securities financing and refinancing and bonds purchased under agreements to resell and sold under agreements to repurchase are recognized during the transaction periods on an accrued basis.
- C. For underwriting commission income and transactions fees, application income is recognized upon receipt of payments. Underwriting commission income and related transactions charges are recognized when the underwriting contracts are completed.

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

(3) Changes in Accounting Principle

Effective from January 1, 2011, the Company newly adopted the third amended SFAS No. 34 "Accounting for the Financial Instruments: Recognition and Measurement." In accordance with the revised SFAS No. 34, initial loans and receivables are applied to the statement of recognition, subsequent evaluation and impairments to loans and receivables. In addition, trouble debt restructuring and modification of debt agreements are also accounted for in accordance with revised SFAS No. 34 commencing from January 1, 2011. Therefore, the change in accounting principle does not have significant impact on the financial statements for the six months period ended June 30, 2011.

(4) Disclosures of Significant Accounts

1) Cash and cash equivalents

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Company accounts:		
Checking accounts	\$ <u>33</u>	<u>7,918</u>

2) Financial assets at fair value through profit and loss-current

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating securities – dealership:		
Government bonds	\$ 7,079,481	1,086,638
Corporate bonds	7,254,696	6,919,612
Financial debentures	<u>500,657</u>	<u>504,112</u>
Subtotal	14,834,834	8,510,362
Valuation adjustment	<u>(5,147)</u>	<u>8,986</u>
Total	\$ <u>14,829,687</u>	<u>8,519,348</u>

For the six months periods ended June 30, 2012 and 2011, the details of gains arising from financial assets at fair value through profit or loss were as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Gain on sale of Securities-dealer	\$ <u>43,019</u>	<u>22,199</u>
(Loss) gain on valuation of securities	\$ <u>(8,158)</u>	<u>25,738</u>
Interest income	\$ <u>76,212</u>	<u>47,575</u>

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

3) Bills and bonds investments under reserve sell agreements

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Bills and bonds investments under reverse sell agreements	\$ <u>10,746,723</u>	<u>2,068,587</u>

As of June 30, 2012 and 2011, the settlement dates for bills and bonds investments under reverse sell agreements were July 10, 2012 and July 14, 2011, respectively; interest rates of the aforementioned reverse sell agreements were 0.77% and 0.55% to 0.60%, respectively. The contracted prices for the aforementioned reverse sell agreements were \$10,748,560 thousand and \$2,068,700 thousand, respectively.

4) Receivables from securities financing

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Receivables from securities financing	\$ 535,151	802,735
Less: allowance for doubtful accounts	<u>2,676</u>	<u>-</u>
Total	\$ <u>532,475</u>	<u>802,735</u>

5) Available-for-sale financial assets – current

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating securities – dealership:		
Government bonds	\$ 9,504,578	10,535,101
Corporation bonds	599,880	837,827
Financial debentures	<u>299,942</u>	<u>799,887</u>
Subtotal	10,404,400	12,172,815
Valuation adjustment	<u>33,605</u>	<u>79,776</u>
Total	\$ <u>10,438,005</u>	<u>12,252,591</u>
Interest Income	\$ <u>92,496</u>	<u>56,246</u>

6) Property and equipment

	<u>Cost</u>	<u>June 30, 2012 Accumulated depreciation</u>	<u>Net</u>
Office and other equipment	\$ 34,347	29,358	4,989
Leasehold improvements	<u>16,475</u>	<u>8,268</u>	<u>8,207</u>
Total	\$ <u>50,822</u>	<u>37,626</u>	<u>13,196</u>

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

	<u>Cost</u>	<u>June 30, 2011 Accumulated depreciation</u>	<u>Net</u>
Office and other equipment	\$ 42,336	33,081	9,255
Leasehold improvements	<u>17,082</u>	<u>4,936</u>	<u>12,146</u>
Total	<u>\$ 59,418</u>	<u>38,017</u>	<u>21,401</u>

7) Other assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Refundable deposits – securities settlement fund	\$ 171,094	198,069
Refundable deposits – other	<u>678</u>	<u>678</u>
Total	<u>\$ 171,772</u>	<u>198,747</u>

The Company deposited time deposits based on RGSF, “The Negotiable Securities Counter Business Transaction Market Common Responsibility System Pays the Settlement Fund Policing Method “ and “The Bond Equivalent Deal System and Buys and Sells Two Kind of Stocks Circles to Save the Reserve Fund Policing Method”. As of June 30, 2012 and 2011, time deposits, recorded as Refundable deposits – securities settlement fund, were \$171,094 thousand and \$198,069 thousand, respectively.

8) Financial liabilities at fair value through profit or loss - current

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Trading financial liabilities:		
Borrowed securities payable	\$ -	883,713
Adjustments in value of borrowed securities payable	<u>-</u>	<u>(177)</u>
Total	<u>\$ -</u>	<u>883,536</u>

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

9) Related information about financial instrument

A. Fair value information

a. Financial assets and liabilities at fair value equivalent to book value:

The fair values of short-term financial instruments are estimated using their book value on the balance sheet. Since such instruments will mature within a short time, book value is a reasonable basis to estimate the fair value of financial assets such as cash and cash equivalents, receivables from securities financing, securities refinancing margin deposits, receivables from securities refinancing, accounts receivables, other receivables, other current assets, securities settlement funds, guaranteed deposits paid, other assets, etc. and financial liabilities such as financing securities guaranteed deposits, financing securities guaranteed proceeds payables, accounts payables, etc.

b. Financial assets and liabilities at fair value through profit and loss and available-for-sale financial assets:

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.

As of June 30, 2012 and 2011, the fair values of the Company's financial assets and liabilities evaluated using valuation techniques were listed below:

Account	Amount	
	June 30, 2012	June 30, 2011
Financial assets at fair value through profit or loss — current	\$ 14,829,687	8,519,348
Available-for-sale financial assets — current	10,438,005	12,252,591
Financial liabilities at fair value through profit or loss — current	-	883,536

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

B. Financial risk information

a. Market risk

The Company holds floating-rate financial assets; the fair value of the assets fluctuates with the market rate. The Company has established a risk management system to monitor and control the market risk of investments to reduce market risk.

b. Credit risk

The primary potential credit risk is derived from financial instruments such as bonds and other securities investments. In order to diversify and manage the risk, the Company specifies optimal investment and trade management policies according to the credit assessment for individual investment targets and customers. Therefore, the credit risk deriving from financial instruments held by the Company is not considered highly concentrated.

c. Liquidity risk

The Company's operating capital can cover all contract obligations, and thus the risk of inadequate capital to fulfill contract obligations is considered low. Moreover, the bonds held by the Company are actively traded on the market and are expected to be sold at fair value in the market.

(5) Related-Party Transactions

1) Names of related parties and their relationship with the Company

Name of related partyRelationship with the Company

Directors, Supervisors, President and Vice Presidents The senior management of the Company

2) Significant transactions with related parties

For the six months periods ended June 30, 2012 and 2011, brokerage commissions with the related parties from securities trading were as follows:

Name of related party	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income by individual related parties not over 1% of total income	\$ <u>74</u>	<u>-</u>	<u>754</u>	<u>-</u>

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

The trading terms of securities brokerage with related parties above are similar to those with non-related parties.

(6) Pledged Assets

As of June 30, 2012 and 2011, the Company provided the assets below as refundable security deposits for securities operation.

<u>Security deposits</u>	<u>Purpose</u>	<u>Amount</u>	
		<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating securities – Government bonds (recorded as available-for-sale financial assets – current)	Security deposits for futures trading	\$ 35,000	35,000
	Security deposits for security brokerage	225,000	200,000
		<u>260,000</u>	<u>235,000</u>
Certificates of deposits (recorded as other assets)	Security deposits for bond proprietary trading	10,000	10,000
		\$ <u>270,000</u>	<u>245,000</u>

7) **Significant Commitments and Contingencies: none.**

8) **Significant Disaster Losses: none.**

9) **Significant of Subsequent Events: none.**

(Continued)

STANDARD CHARTERED COMPANY (TAIWAN) LIMITED SECURITIES DEPARTMENT.

Notes to Financial Statements

(10) Other

Summary of staff cost, depreciation and amortization expenses for the six months periods ended June 30, 2012 and 2011 is as follows:

	2012			2011		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Staff cost						
Salaries	-	37,576	37,576	-	43,512	43,512
Labor and health insurance	-	3,639	3,639	-	3,725	3,725
Pension	-	3,731	3,731	-	4,606	4,606
Others	-	1,273	1,273	-	1,597	1,597
Depreciation	-	3,981	3,981	-	4,072	4,072
Amortization	-	26	26	-	158	158

(11) Other Disclosure Items

- 1) Related information on material transactions items:
 - A. Lending to others: None.
 - B. Guarantee and endorsements for others: None.
 - C. Acquisition of real estate over \$100,000 thousand or 20% of paid-in capital: None.
 - D. Disposal of real estate over \$100,000 thousand or 20% of paid-in capital: None.
 - E. Discount on commissions of transactions with related parties over \$5,000 thousand: None.
 - F. Receivables from related parties over \$100,000 thousand or 20% of paid-in capital: None.
- 2) Information on reinvestment business: None
- 3) Information on investment in Mainland China : None

(12) Business Segment Financial Information: None