STANDARD CHARTERED BANK (TAIWAN) LIMITED
(Former Hsinchu International Bank Co., Ltd.)

Financial Statements

June 30, 2007 and 2006
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

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

We have audited the accompanying balance sheet of Standard Chartered Bank (Taiwan) Limited (former Hsinchu International Bank Co., Ltd.) as of June 30, 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the six-month period ended June 30, 2007. 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 audit. The financial statements as of and for the six-month period ended June 30, 2006, were audited by other auditors, whose report thereon dated August 2, 2006, expressed a qualified opinion on those statements. As described in note 12 to the financial statements, based on unaudited financial statements, the Bank's equity investments in Hsinchu Real Estate Co., Ltd., Hsinchu Insurance Agent Co., Ltd., Chuchian Insurance Agent Co., Ltd., and Paradigm Assets Management Co., Ltd., which are accounted for under the equity method, amounted to $934,938 thousand, representing 0.22% of total assets, as of June 30, 2006, and for the six-month period ended June 30, 2006, investment income recognized by the Bank under the equity method amounted to $132,016 thousand, representing (4.21)% of loss before income tax. Moreover, as described in note 3 to the accompanying financial statements, the Bank adopted Republic of China Statements of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Disclosure and Presentation" on January 1, 2006.

We conducted our audit in accordance with generally accepted auditing standards and the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants. Those standards 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 audit provides 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, 2007, and the results of its operations and its cash flows for the six-month period then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and Republic of China generally accepted accounting principles.

Standard Chartered Bank (Taiwan) Limited has prepared its consolidated financial statements for Standard Chartered Bank (Taiwan) Limited and its subsidiaries as of and for the six-month period ended June 30, 2007, on which we have expressed a standard unqualified review opinion.

The consolidated financial statements for Standard Chartered Bank (Taiwan) Limited and its subsidiaries as of and for the six-month period ended June 30, 2006, were reviewed by other auditors, whose review report expressed a modified unqualified review opinion with explanatory paragraphs.

KPMG

KPMG Certified Public Accountants
August 16, 2007

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.

Standard Chartered Bank (Taiwan) Limited

Balance Sheets

June 30, 2007 and 2006

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

	2007	2006	Change %
Assets			
Cash and cash equivalents (notes 4 and 22)	$ 6,753,799	7,389,590	(9)
Balance at Central Bank and loans and advances to banks (notes 5 and 22)	78,551,538	21,637,312	263
Financial assets held at fair value through profit or loss, net (notes 6, 21, 22 and 23)	20,088,949	10,961,157	83
Bills and bonds purchased under reverse repurchase agreements (notes 8 and 22)	687,487	295,722	132
Accounts receivable, net (notes 10, 11 and 19)	29,148,597	10,566,921	176
Loans and advances to customers (notes 11 and 22)	297,903,573	298,403,912	-
Available-for-sale financial assets, net (notes 7 and 23)	94,533,826	11,524,522	720
Held-to-maturity financial assets, net (notes 9 and 23)	-	43,493,927	-
Interest in associates under equity method, net (note 12)	483,507	1,199,122	(60)
Other financial assets, net (notes 11,12 and 14)	431,416	404,478	7
Property and equipment, net (notes 13 and 24)	7,809,017	7,888,198	(1)
Intangible assets (note 3)	68,381	893	7,557
Other assets (notes 14 and 19)	5,929,859	5,122,123	16
Total Assets	$ 542,389,949	418,887,877	29

	2007	2006	Change %
Liabilities and Stockholders' Equity			
Deposits by Central bank and other banks (note 22)	$ 49,829,621	20,302,109	145
Financial liabilities held at fair value throughprofit or loss (notes 6 and 21)	19,524,250	57,568	33,815
Bills and bonds sold under repurchase agreements (notes 8, 22 and 23)	5,751,897	23,582,814	(76)
Notes and accounts payable (note 22)	6,712,184	6,082,700	10
Temporary receipts under custody	3,715,216	282,470	1,215
Deposits and remittances (notes 15 and 22)	409,516,701	331,417,277	24
Financial debentures (note 16)	22,800,000	18,547,543	23
Other liabilities (notes 18 and 22)	1,565,745	1,275,370	23
Total liabilities	519,415,614	401,547,851	29
Stockholders' Equity (notes 3, 7, 19 and 20):			
Capital:			
Common stock, par value $10, authorized 2,500,000 thousand shares and 1,900,000 thousand shares and issued 2,157,572 thousand shares and 1,574,536 thousand shares on June 30, 2007 and 2006, respectively	21,575,720	15,745,358	37
Reserve for capital increase	-	494,079	-
Capital surplus	5,049,515	8,917	56,528
Retained earnings:			
Legal reserve	-	3,228,441	-
Special reserve	332	332	-
Accumulated deficits	(2,853,212)	(2,682,085)	(6)
	(2,852,880)	546,688	(622)
Other adjustments to stockholders' equity:			
Revaluation increments on assets	381,303	381,303	-
Unrealized gain (loss) on available-for-sale financial assets	(1,179,323)	163,681	(821)
	(798,020)	544,984	(246)
Total stockholders' equity	22,974,335	17,340,026	32
Commitments and contingent liabilities (notes 14, 21, 22, 23 and 24)			
Total Liabilities and Stockholders' Equity	$ 542,389,949	418,887,877	29

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Income

For the six-month periods ended June 30, 2007 and 2006
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2007	2006	Change %
Interest income (notes 6 and 22)	$ 6,812,843	6,556,172	4
Less: interest expense	3,210,533	2,675,427	20
Net interest income	3,602,310	3,880,745	(7)
Other operating income:			
Fees and commission income, net	2,101,479	1,311,881	60
Gain on financial instruments held at fair value through profit or loss (note 6)	76,224	14,012	444
Realized gain on available-for-sale financial assets (note 7)	192,137	162,641	18
Investment income from associates under equity method, net (note 12)	52,814	128,893	(59)
Foreign exchange gain, net	12,684	50,390	(75)
Impairment loss on assets (notes 12 and 14)	(49,967)	(35,627)	(40)
Other non-interest income, net (notes 14 and 17)	1,135,560	723,426	57
Operating income	7,123,241	6,236,361	14
Impairment losses on loans and advances to customers and others (note 11)	4,297,630	6,275,799	(32)
Operating expenses:			
Staff costs (note 18)	1,816,687	1,626,359	12
Depreciation and amortization expenses (note 13)	288,711	273,722	5
General and administrative expenses	1,641,917	1,192,569	38
	3,747,315	3,092,650	21
Loss from continuing operations before income tax	(921,704)	(3,132,088)	71
Income tax expense (benefit) (note 19)	284,184	(332,100)	186
Loss before cumulative effect of changes in accounting principle (note 3)	(1,205,888)	(2,799,988)	57
Cumulative effect of changes in accounting principle (note 3)	-	66,607	-
Net loss	$ (1,205,888)	(2,733,381)	56

	2007 Before tax	2007 After tax	2006 Before tax	2006 After tax
Basic earnings (deficits) per share (notes 3 and 20)				
Net loss before cumulative effect of changes in accounting principle	$ (0.56)	(0.73)	(1.99)	(1.78)
Cumulative effect of changes in accounting principle		-	0.04	0.04
Net loss		$ (0.73)	(1.95)	(1.74)

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

				Retained earnings			Other adjustments			
	Common stock	Reserve for capital increase	Capital surplus	Legal reserve	Special reserve	Accumulated deficits	Revaluation increments on assets	Cumulative translation adjustments	Unrealized gain (loss) on available-for-sale financial assets	Total
Balance as of January 1, 2006	$ 15,745,358	-	8,917	2,271,184	320	3,282,894	381,303	(12)	-	21,689,964
Appropriation of retained earnings (note 20):										
Legal reserve	-	-	-	957,257	-	(957,257)	-	-	-	-
Special reserve	-	-	-	-	12	(12)	-	-	-	-
Stock dividends	-	494,079	-	-	-	(494,079)	-	-	-	-
Cash dividends	-	-	-	-	-	(1,574,536)	-	-	-	(1,574,536)
Directors' and supervisors' remuneration	-	-	-	-	-	(113,716)	-	-	-	(113,716)
Bonus to employees	-	-	-	-	-	(91,998)	-	-	-	(91,998)
Net loss for the six-month period ended June 30, 2006	-	-	-	-	-	(2,733,381)	-	-	-	(2,733,381)
Changes in shareholders' equity of associates by equity method (note 7)	-	-	-	-	-	-	-	12	68,088	68,100
Unrealized gain (loss) on available-for-sale financial assets (note 7)	-	-	-	-	-	-	-	-	95,593	95,593
Balance as of June 30, 2006	$ 15,745,358	494,079	8,917	3,228,441	332	(2,682,085)	381,303	-	163,681	17,340,026
Balance as of January 1, 2007	$ 16,545,167	-	225,000	3,228,441	332	(5,099,895)	381,303	-	(383,517)	14,896,831
Capital increase as consideration for assignment of business (note 20)	100,000	-	118,556	-	-	-	-	-	-	218,556
Capital increase for cash (note 20)	4,930,553	-	4,930,553	-	-	-	-	-	-	9,861,106
Recovery of accumulated deficits by offsetting with capital surplus and legal reserve (note 20)	-	-	(224,130)	(3,228,441)	-	3,452,571	-	-	-	-
Special reserve recognized as expenses	-	-	(464)	-	-	-	-	-	-	(464)
Net loss for the six-month period ended June 30, 2007	-	-	-	-	-	(1,205,888)	-	-	-	(1,205,888)
Unrealized gain (loss) on available-for-sale financial assets (note 7)	-	-	-	-	-	-	-	-	(795,806)	(795,806)
Balance as of June 30, 2007	$ 21,575,720	-	5,049,515	-	332	(2,853,212)	381,303	-	(1,179,323)	22,974,335

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Cash Flows

For the six-month periods ended June 30, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

		2007	2006
Cash flows from operating activities:			
Net loss	$	(1,205,888)	(2,733,381)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Bad debt expenses		4,297,630	6,275,799
Provision for liabilities and charges increase (decrease)		2,123	(45,989)
Depreciation		285,003	272,229
Amortization		3,708	1,493
Effect of changes in foreign exchange rate		-	(136,015)
Investment income from associates under equity method		(52,814)	(128,893)
Realized gain on available-for-sale financial assets		(192,137)	-
Loss on disposal of financial assets carried at cost		-	5,532
Increase (decrease) of unrealized gain from associates		(49)	(49)
Gain on redemption of financial debentures		-	(18,177)
Gain on sales of foreclosed assets		(225,622)	(46,904)
Fixed assets recognized as expenses		6,000	-
Loss on disposal of property and equipment, net		6,335	2,133
Impairment losses		49,967	35,627
Special reserve recognized as expenses		(464)	-
Increase in balance at Central Bank and loans and advances to banks		(8,975,566)	(7,380,952)
Decrease (increase) in financial assets held at fair value through profit or loss		26,598,083	(1,769,434)
Decrease in accounts receivable		2,426,324	2,069,898
Decrease (increase) in loans and advances to customers		14,072,572	(32,302,713)
Decrease (increase) in other financial assets, net		(194,987)	8,007
Decrease (increase) in deferred income tax assets		207,148	(388,231)
Increase in deposits by Central Bank and other banks		183,453	3,417,788
Increase (decrease) in financial liabilities at fair value through profit or loss		(19,450)	12,284
Increase (decrease) in deposits and remittances		(14,545,829)	12,093,992
Increase (decrease) in notes and accounts payable		(59,674)	204,265
Net cash provided by (used in) operating activities		22,665,866	(20,551,691)
Cash flows from investing activities:			
Decrease in bills and bonds purchased under reverse repurchase agreements		-	11,358,762
Acquisition of available-for-sale financial assets		(60,162,733)	-
Proceeds from disposal of available-for-sale financial assets		37,526,395	230,491
Decrease in held-to-maturity financial assets		-	3,970,956
Acquisition of property and equipment and foreclosed assets		(113,499)	(234,134)
Proceeds from disposal of property and equipment and foreclosed assets		221,836	46,685
Increase in intangible assets		(24,897)	-
Decrease in other assets		139,641	120,200
Net cash provided by business assignment (note 27)		1,006,506	-
Net cash provided by (used in) investing activities		(21,406,751)	15,492,960
Cash flows from financing activities:			
Increase (decrease) in bills and bonds sold under agreements to repurchase		(12,505,651)	7,476,736
Decrease in financial debentures		-	(2,911,379)
Decrease in other liabilities		(144,116)	(499,087)
Issuance of common stock for cash		9,861,106	-
Directors' and supervisors' remuneration and employees' bonus		-	(205,714)
Net cash provided by (used in) financial activities		(2,788,661)	3,860,556
Net decrease in cash and cash equivalents		(1,529,546)	(1,198,175)
Cash and cash equivalents at beginning of period		8,283,345	8,587,765
Cash and cash equivalents at end of period	$	6,753,799	7,389,590
Supplemental disclosure of cash flow information:			
Cash payments of interest	$	3,147,842	2,566,890
Cash payments of income tax	$	109,616	54,373
Investing activities not affecting cash flows:			
Recognized unrealized gain (loss) on available-for-sale financial assets	$	(795,806)	163,681
Adjustments to interest in associates under equity method on dividends declared by associates:			
Cash dividends receivable from associates accounted for under equity method	$	252,171	-

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

June 30, 2007 and 2006
(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 regulations, the Bank was formally changed into The Small and Medium Business Bank of Hsinchu District in 1978, and the Bank was initially engaged in banking activities.

The Bank was approved by the Ministry of Finance to operate as a commercial bank in September 1998 and changed its name to Hsinchu International Bank Co., Ltd. on April 20, 1999. Pursuant to an approval granted by the Securities and Futures Commission (SFC), the Bank's shares have been publicly traded since March 22, 1983. The SFC changed its name to the Securities and Futures Bureau (SFB) from July 1, 2004. Pursuant to approvals 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 year 1989, the Bank entered the securities trading business, and in 1993, the Bank entered the securities broker business, both approved by the Ministry of Finance. On January 16, 1995, the Bank established an Offshore Banking Unit (OBU).

On September 29, 2006, Standard Chartered Bank U.K. launched a tender offer to acquire the outstanding shares of the Bank. Standard Chartered Bank U.K procured over 95% of the outstanding common shares from September 29 through December 31, 2006. In accordance with the "Taiwan Stock Exchange Corporation Procedures for Stock Exchange Delisting Application by Listed Companies", the Bank submitted the delisting application and was approved by the related authorities on January 18, 2007.

On June 30, 2007, the business of Standard Chartered Bank, Taipei Branch was assigned to the Bank, and the Bank was authorized to be renamed Standard Chartered Bank (Taiwan) Limited on July 2, 2007.

As of June 30, 2007 and 2006, the number of the Bank's employees was 4,811 and 3,391, 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.

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and Republic of China (ROC) 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 estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Actual results could differ from these estimates.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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 and branches of the Bank. All intra-office balances and transactions have been eliminated for preparation of the financial statements.

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

2) Foreign currency transactions

Except for accounts in OBU of the Bank that are maintained in US dollars, accounts in all other entities are maintained in New Taiwan dollars. For those transactions denominated in foreign currencies, assets and liabilities are recorded in their original foreign currencies, and all income and expense accounts denominated in original foreign currencies are translated into New Taiwan dollars at daily closing exchange rates. At the balance sheet date, the financial statement amounts in all foreign currencies are translated into New Taiwan dollars at exchange rates assigned on that date. Differences from translation are recorded as gains or losses for the current period.

3) Cash and cash equivalents

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

4) Reserve for deposits

Deposit reserve is calculated based on the monthly average balance of the various deposit accounts, using specific reserve ratios as promulgated by the Central Bank of the Republic of China (CBC). There is no interest rate offered to the reserve for deposits—checking and foreign currency accounts. The reserve for deposits—demand account is placed with the CBC and is subject to change only when the monthly reserve requirement is adjusted. The reserve for deposits—settlement account is placed with the CBC for interbank settlement.

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

Starting from January 1, 2006, 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 held at fair value through profit or loss include debt, equity, and derivative instruments held or issued by the Bank. This category has two sub-categories: financial assets held for trading, and those 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 acquiring in the short term.

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Except for foreign currency transactions that are recorded on the trade date, purchases and sales of financial assets and liabilities held at fair value through profit or loss are recognized on the settlement date. Financial assets are initially recognized at fair value plus directly attributable transaction costs.

Financial assets and liabilities held 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 willing parties. A quoted market price, if available, in an active market is the best evidence of fair value. The fair value of listed or OTC stocks is the market closing price of the last transaction day. The market price of open-end funds is the net asset value on the balance sheet date. The fair value of local bonds is represented by the OTC's quoted market price of the last transaction day of the bonds. If a quoted market price is not available, fair value should be estimated using the best information available in the circumstances or estimated using pricing models. Estimation of fair value is usually based on recent trading prices of such financial instruments, supplemented by related valuation techniques.

The realized and unrealized gain or loss arising from fair value changes of financial assets and liabilities, including the amortization of discount or premium, should be recognized in current net income or loss. Interest income (expense) and cash dividends received during the holding period are recorded under the accounts "interest income (expense)" and "gain (loss) on financial instruments held 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 when the board declares the cash dividends. Stock dividends are not recognized as income but treated as increases in the number of shares held.

A financial instrument cannot be reclassified into or out of the fair value through profit or loss category after initial recognition.

6) Available-for-sale financial assets

Starting from January 1, 2006, the Bank adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement".

Available-for-sale financial assets include financial assets that are designated as available-for-sale at inception, and non-derivative financial assets that are excluded from held-to-maturity financial assets, financial assets held at fair value through profit or loss, loans, and accounts receivable.

The Bank recognizes the purchase or sale of available-for-sale financial assets by using settlement-date accounting. These financial instruments are initially recognized at fair value, and the amount recognized includes acquisition or issuance cost.

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Available-for-sale financial assets are subsequently carried at fair value. Fair value is based on the quoted market price or estimated amount by using a pricing model or technique if the quoted market price is not available. 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 of the board of directors resolution. However, the dividend amount will be deducted from the investment cost if it is declared prior to the investment. Stock dividends are not recognized as income but treated as increases in the number of shares held. Differences between the fair value and the amortized costs are adjusted to stockholders' equity. When available-for-sale financial assets are sold, cumulative gains or losses previously recognized in equity are recognized in the income statement.

When there is any indication of impairment in the value of available-for-sale financial assets, an impairment loss should be recognized in the income statement. Impairment losses recognized in the income statement on debt instruments classified as available-for-sale are reversed through the income statement if the fair value of such debt instruments increases in a subsequent period. Impairment losses recognized on equity instruments are reversed through stockholders' equity. The carrying value after the reversal should not exceed the recoverable amount of the assets assuming no impairment loss was recognized in prior periods.

7) Held-to-maturity financial assets

Starting from January 1, 2006, the Bank adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement".

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. Loans, accounts receivable, financial assets that are designated as available-for-sale, and financial assets held at fair value through profit or loss at inception shall not be classified as held-to-maturity assets.

The Bank recognizes the purchase or sale of held-to-maturity financial assets by using settlement-date accounting. These financial instruments are initially recognized at fair value, and the amount recognized includes acquisition or issuance cost.

Held-to-maturity financial assets are subsequently recorded at amortized cost. Amortized cost and interest income (expense) of held-to-maturity financial assets are evaluated by using the effective interest rate. If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is objectively attributable to an event which occurred after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined if no impairment loss had been recognized. The amount of the reversal is recognized in the income statement.

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8) Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognized to the extent of the Bank's continuing involvement. 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 a sale, the Bank accounts for the transfer as a borrowing with collateral.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

9) Derivative financial instruments

Derivative financial instruments are held for trading purposes except those accounted for under hedge accounting. Trading purposes include market creation, customer services, and other relevant activities.

Derivative financial instruments held for trading purposes are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Changes in fair value are recorded as current income or loss. Fair value is the amount at which the asset could be purchased or sold in a current arm's-length transaction between willing parties. A quoted market price, if available, in an active market is the best evidence of fair value; however, if a quoted market price is not available, fair value should be estimated using the best information available in the circumstances or using pricing models. Estimation of fair value is usually based on recent trading prices of similar financial instruments and supplemented by related valuation techniques available.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized in the income statement.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

10) Repurchase and reverse repurchase agreements

Financial instruments sold (purchased) under repurchase or reverse repurchase agreements are stated at acquisition cost. The difference between the sale and the repurchase price is treated as interest income or interest expense and recognized over the life of the agreement.

11) Loans and allowance for doubtful accounts

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

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Credit terms are decided by the term to maturity of loans. The loan period of short-term loans is within one year, the loan period of medium-term loans is one to seven years, and the loan period of long-term loans is more than seven years. Loans with pledged assets, and qualified guarantees are recorded as secured loans.

All loans are recorded initially as the actual amount lent out and reported at their outstanding principal balances net of any provisions for doubtful accounts. An allowance for doubtful accounts is determined by evaluating the collectibility of loans and age of receivables (including nonperforming loans and overdue receivables and interest receivables) and advance accounts. Doubtful accounts are written off when the recovery possibility is remote.

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

In accordance with Ruling Tai-Tsai-Rong No. 88733168, banks should provide 3% of operating revenue as allowance for bad debts to write off default accounts from July 1, 1999, and for the following four years. Moreover, based on interpretation letter Wa-Chung-One-Yi No. 09200114870, the aforementioned ruling is still valid until the ratio of overdue accounts is lower than 1%. The aforementioned allowance is recognized and charged to current operations.

12) Interest in associates under equity method

Investments in associates are accounted for under the equity method when the percentage of ownership, including direct investments by the Bank and indirect investments by its subsidiaries, exceeds 20%, or is less than 20% but the Bank has significant influence over the investee.

Unrealized profits and losses from intercompany transactions between the Bank and its subsidiaries shall be eliminated. When the unrealized profits or losses arise from downstream transactions, unrealized gain or loss from inter-company 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 are adjusted. If the transaction profits or losses arise from depreciated, depleted, or amortized fixed assets, the recognition of such profits and losses shall be spread over the useful lives of such assets; otherwise, the recognition shall be in the year when profits or losses are realized.

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

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

(Continued)

13) Other financial assets — financial assets carried at cost

Financial assets carried at cost include un-listed stocks and those investees over which the Bank has no significant influence. Those financial assets are recorded at cost as their fair values are not measurable. If there is an indication of impairment, impairment loss should be recognized, and this recognized amount is non-reversible.

Cash dividends acquired from the aforementioned financial assets are recorded under "other non-interest income, net" on the ex-dividend date or the date of the board of directors resolution. However, dividends received will be deducted from the investment cost if they are declared prior to the investment. Stock dividends are not recognized as income but treated as increases in the number of shares held. In addition, if fair value is available and reliably measurable, the aforementioned financial assets should be evaluated by using fair value and reclassified as "available-for-sale financial assets".

14) Property and equipment, and related depreciation

Property and equipment are stated at cost, and major purchases, renewals and improvements are capitalized. Interest expense on acquisition of assets is capitalized and is categorized in related asset accounts. Apart from land, depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets. Gains or losses on the disposal of property and equipment are recorded as other non-interest income or losses.

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

Buildings	5 to 60 years
Transportation equipment	3 to 5 years
Other equipment	3 to 6 years

15) Intangible assets

Effective January 1, 2007, the Bank 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 less any accumulated amortization and any accumulated impairment losses.

The depreciable amount 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	1 to 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. Such changes shall be accounted for as changes in accounting estimates.

(Continued)

16) Other assets — idle assets

When property and equipment are not used for operations or any other purposes, the Bank should transfer the original cost, accumulated depreciation, and accumulated impairment of the assets to other assets — idle assets. Idle assets should be depreciated on a straight-line basis over the estimated useful lives of the respective assets.

17) Other assets — property held for lease

Property held for lease is stated at book value, and depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

18) Other assets — foreclosed assets

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

19) Asset impairment

The Bank 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 whose carrying value is 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.

20) Deposits by banks, and deposits and remittances

Deposits by banks, and deposits and remittances are initially recognized at fair value of consideration received. Deposits by banks, and deposits and remittances are subsequently stated at amortized cost, with any difference between proceeds and the redemption value recognized in the income statement using the effective interest method.

21) Financial debentures

Due to the inseparability of the conversion option and debt elements of the convertible bonds issued by the Bank in 2004, total proceeds received are recorded as liabilities.

The direct and necessary costs of issuing financial debentures are recorded as deferred charges and amortized on a straight-line basis through the shorter of the duration period or the period from the issuance to the expiry of the right to resale.

When the holder exercises the conversion option, the convertible bonds should be valued at the fair market price of the common stock at the exercising date. The fair market price of the convertible bonds in excess of the par value of the common stock should be recognized as capital surplus. The unamortized issuing costs should be recorded as a reduction of capital surplus.

(Continued)

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

For financial debentures issued after January 1, 2006, the components of compound financial instruments are separated on initial recognition. The liability component is measured first, and the difference between the proceeds received on issuance and the fair value of the liability component is accounted for as the equity component. The present value of the liability component is calculated using the market interest rate for similar debt without conversion options. The liability component is subsequently measured at amortized cost, and changes in fair value of the equity component are not recognized.

22) Provisions for liabilities and charges

According to the Rules Governing Administration of Securities Firms (RGASF), 10% of the monthly securities trading gains in excess of losses must be provided as a provision by utilizing the total amount method until the accumulated balance of such provision reaches $200,000 thousand. Such provision can only be used to offset a loss from trading securities.

The aforementioned provision for trading loss is recorded as other liabilities and charged to other noninterest expenses.

According to the RGASF, 0.28% of security transaction trading value must be provided as a default loss provision until the balance of such provision reaches $200,000 thousand. Such provision can only be used to offset contract losses or other losses as approved by the SFB of the FSC.

The aforementioned provision for default loss is recorded as other liabilities and charged to other noninterest expenses.

Provision for guarantee liabilities is the estimated potential losses based on the ending balances of guarantees and acceptances. According to the abovementioned regulations, the Bank records provision for (reversal of) guarantee liabilities as other non-interest income, net, and other liabilities.

23) Pension

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

The Bank adopted the R.O.C. Labor Standards Laws on May 1, 1997, and set up the "Retirement Fund Supervisory Committee". The Bank has made monthly deposits to the fund in the Central Trust of China since July 1998.

(Continued)

On July 1, 2005, the Labor Pension Act (LPA) became effective. Under the defined contribution scheme of the LPA (the New System), the Bank has an obligation to contribute no less than 6% of monthly paid salary to the pension accounts in the Labor Insurance Bureau individually owned by the Bank's existing employees who chose to join the New System and employees hired after the effective date. The amount deposited under the defined contribution scheme is charged to current expenses.

The measurement date for the Bank's defined benefit pension scheme is the balance sheet date. The Bank accrues pension cost and minimum pension liability when the accumulated benefit obligation exceeds the fair value of the fund assets. Prior service cost and gains or losses on pension plan assets are amortized over the remaining service period.

24) Revenue recognition

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

25) Income tax

Estimation of income tax expense is based on accounting income. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities accounts, using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and a valuation allowance is recognized accordingly.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognized in the income statement together with the current or deferred gain or loss.

The 10% surtax on undistributed earnings, computed according to the ROC Income Tax Act, is charged to current income tax expense in the year of earnings distribution following a resolution at the shareholders' meeting.

Effective January 1, 2006, the Income Basic Tax Act has been applied to the calculation of the Bank's basic income tax. In accordance with the new regulation, basic income tax is calculated as one-tenth of the basic income minus 2 million dollars. Basic income is calculated by using regular taxable income plus add-back items, such as tax-exempt income from securities and futures transactions. When the calculated regular tax amount is less than the basic tax amount, the Bank is required to pay the basic tax amount.

26) Earnings per share of common stock

Earnings per share are computed as net income divided by the weighted-average number of issued shares of common stock. The increase in number of issued shares resulting from issuance of stock dividends from retained earnings or capital surplus before the financial statement report date is adjusted retroactively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(3) Changes in Accounting Principle

Starting from January 1, 2007, the Bank adopted ROC SFAS No. 37 "Intangible Assets". The change does not affect the net income and earnings per share for the six-month period ended June 30, 2007.

Starting from January 1, 2006, the Bank adopted ROC SFAS No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Disclosure and Presentation". For the six-month period ended June 30, 2006, the cumulative effect of changes in accounting principle amounted to $66,607, and net loss before the cumulative effect of changes in accounting principle and basic loss per share decreased by $47,702 thousand and $0.03, respectively.

(4) Cash and Cash Equivalents

As of June 30, 2007 and 2006, cash and cash equivalents were as follows:

		2007	2006
Cash	$	4,600,745	4,777,083
Negotiable instruments for clearing		452,438	39,488
Deposits with other banks		1,201,101	2,573,019
Deposits with affiliate companies		499,515	-
	$	6,753,799	7,389,590

(5) Balance at Central Bank, and Loans and Advances to Banks

As of June 30, 2007 and 2006, the balance at the Central Bank and loans and advances to banks were as follows:

		2007	2006
Balance at Central Bank			
Reserve for deposits:			
Checking account	$	12,438,555	4,051,364
Demand account		11,838,526	8,733,342
		24,277,081	12,784,706
Reserve for deposits－foreign currency		1,597,830	19,439
Interbanks settlement accounts		298,454	515,928
		26,173,365	13,320,073
Loans and advances to other banks		49,023,866	8,317,239
Loans and advances to affiliate companies		3,354,307	-
		52,378,173	8,317,239
	$	78,551,538	21,637,312

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

(Continued)

(6) Financial Assets and Liabilities held at Fair Value through Profit or Loss

As of June 30, 2007 and 2006, financial assets and liabilities held at fair value through profit or loss were as follows:

		2007	2006
Trading financial assets:			
Debt instruments	$	3,562,018	9,037,706
Equity instruments		-	59,843
Beneficiary certificates		-	1,708,013
Derivatives		16,526,931	155,595
Total	$	20,088,949	10,961,157

		2007	2006
Trading financial liabilities			
Debt instruments	$	678,051	-
Derivatives		18,846,199	57,568
	$	19,524,250	57,568

For the six-month periods ended June 30, 2007 and 2006, net gain (loss) on financial assets and liabilities held at fair value through profit or loss recognized by the Bank were as follows:

		2007	2006
Net gain (loss) on valuation and disposal of trading financial assets:			
Debt instruments	$	105,128	(9,799)
Equity instruments		-	(1,208)
Beneficiary certificates		-	6,326
Derivatives		(89,742)	(19,971)
		15,386	(24,652)
Dividend income		-	1,002
Interest income		14,636	8,131
Total	$	30,022	(15,519)

		2007	2006
Net gain (loss) on valuation and disposal of trading financial liabilities:			
Derivatives	$	60,838	37,662

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(7) Available-for-sale Financial Assets

As of June 30, 2007 and 2006, available-for-sale financial assets were as follows:

		2007	
	Amortized costs	Unrealized gain (loss)	Fair value
Debt instruments:			
Treasury bills	$ 399,438	-	399,438
Government bonds	12,235,423	(162,015)	12,073,408
Commercial paper, net of accumulated impairment losses for $49,967 thousand	1,686,504	-	1,686,504
Negotiable certificates of deposit	54,066,011	(33,313)	54,032,698
Financial debentures	10,798,530	(568,822)	10,229,708
Corporate bonds	11,326,922	(403,862)	10,923,060
Subtotal	90,512,828	(1,168,012)	89,344,816
Beneficiary certificates	5,200,321	(11,311)	5,189,010
Total	$ 95,713,149	(1,179,323)	94,533,826

		2006	
	Amortized costs	Unrealized gain (loss)	Fair value
Debt instruments:			
Government bonds	$ 4,914,984	(98,470)	4,816,514
Corporate bonds	3,250,787	22,309	3,273,096
Financial debentures	2,472,648	1,336	2,473,984
Subtotal	10,638,419	(74,825)	10,563,594
Beneficiary certificates	715,918	2,050	717,968
Equity instruments:			
Listed stocks	74,592	168,368	242,960
Total	$ 11,428,929	95,593	11,524,522

For the six-month periods ended June 30, 2007 and 2006, the movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	2007	2006
Beginning balance	$ (383,517)	-
Unrealized gain (loss) recognized in the period	(604,809)	256,728
Realized gain (loss) on disposal in the period	190,997	161,135
Ending balance	$ (1,179,323)	95,593

(Continued)

As of June 30, 2007 and 2006, unrealized gain (loss) on available-for-sale financial assets of investee companies recognized by the Bank in proportion to its holdings amounted to $0 and $68,088, respectively.

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. 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. 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. 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. The duration period of the second beneficiary certificates is from September 20, 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 subsequent 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.

1) Key assumptions used in measuring retained interests

	2007		2006
	First	Second	
Prepayment rate (annual rate)	30.00 %	20.00 %	30.00 %
Weighted-average life	2.41 years	3.80 years	3.62 years
Expected credit losses rate (annual rate)	1.50 %	1.50 %	1.50 %
Discounted rate for residual cash flows	2.60 %	2.60 %	2.60 %

2) Sensitivity analysis

As of June 30, 2007 and 2006, if the key economic assumptions were as below and the related assumptions were adversely changed by 10% and 20%, respectively, the sensitivity of the current fair value of residual cash flows would be as follows:

		2007		2006
		First	Second	
Carrying amount of retained interests	$	1,801,308	2,916,264	1,838,319
Weighted-average life		2.41 years	3.80 years	3.62 years
Expected early repayment rate — assumption (1)		30.00 %	20.00 %	30.00 %
Impact on fair value of 10% adverse change		(5,921)	(20,448)	(12,690)
Impact on fair value of 20% adverse change		(10,943)	(33,073)	(23,490)
Expected credit losses rate (annual rate) — assumption (2)		1.50 %	1.50 %	1.50 %
Impact on fair value of 10% adverse change		(8,671)	(7,763)	(7,522)
Impact on fair value of 20% adverse change		(16,810)	(15,526)	(15,045)

3) As of June 30, 2007 and 2006, there was no actual credit loss for the securitized mortgage loan; thus, the expected static pool credit loss rate was equal to expected credit loss rate.

4) Cash flows

The cash flows received from or paid to securitization trusts for the six-month periods ended June 30, 2007 and 2006, are summarized as follows:

		2007		2006
		First	Second	
Other cash flows received on retained interests	$	41,105	31,676	-
Servicing fee received		2,500	2,500	1,414
Proceeds from new securitization		-	-	-
Cash received for prepayment for service		709	1,127	-
Prepayment for service		693	1,156	-

(Continued)

(8) Bills and Bonds Purchased (Sold) under Reverse Repurchase (Repurchase) Agreements

As of June 30, 2007 and 2006, fair values of underlying assets of bills and bonds purchased under reverse repurchase agreements were as follows:

		2007	2006
Fair value	$	678,051	295,722

As of June 30, 2007 and 2006, settlement dates for bills and bonds purchased under reverse repurchase agreements were July 2, 2007, and from July 5, 2006 to July 14, 2006, respectively; interest rates of the aforementioned reverse repurchase agreements ranged from (1.00)% to 1.83% and from 1.55% to 1.58%, respectively.

As of June 30, 2007 and 2006, bills and bonds sold under repurchase agreements were as follows;

		2007	2006
Financial assets held at fair value through profit or loss	$	473,677	3,156,057
Available-for-sale financial assets		5,159,043	20,384,749
	$	5,632,720	23,540,806

As of June 30, 2007 and 2006, settlement dates for bills and bonds sold under repurchase agreements were from July 3, 2007 to July 25, 2007 and from July 3, 2006 to December 6, 2006, respectively; interest rates of the aforementioned repurchase agreements ranged from 1.25% to 2.05% and from 0.30% to 1.56%, respectively.

(9) Held-to-maturity Financial Assets, Net

As of June 30, 2007 and 2006, held-to-maturity financial assets were as follows:

		2007	2006
Government bonds	$	-	9,073,386
Corporate bonds		-	5,320,138
Financial debentures		-	4,599,612
Certificates of deposit		-	22,700,000
Beneficiary certificates		-	1,800,791
	$	-	43,493,927

Held-to-maturity financial assets as of June 30, 2006, were reclassified as available-for-sale financial assets due to changed intention of holding.

(Continued)

(10) Accounts Receivable

As of June 30, 2007 and 2006, details of accounts receivable were as follows:

		June 30, 2007	June 30, 2006
Credit card receivable, net of allowance for bad and doubtful accounts of $837,320 and $150,321 for 2007 and 2006, respectively	$	16,931,973	5,004,635
Accounts receivable		6,191,885	2,227,877
Acceptance receivable		474,206	742,238
Tax refund receivable		277,293	391,974
Interest receivable		2,009,360	1,438,277
Dividends receivable		252,171	-
Other receivable		3,409,621	1,110,775
Subtotal		12,614,536	5,911,141
Less: allowance for bad and doubtful accounts		397,912	348,855
		12,216,624	5,562,286
	$	**29,148,597**	**10,566,921**

(11) Loans and Advances to Customers

		2007	2006
Remittance and discounts for exports	$	4,962,867	210,700
Short-term loans and overdrafts		27,840,598	34,320,459
Short-term secured loans and overdrafts		17,040,228	16,144,613
Medium-term loans		66,036,209	73,759,060
Medium-term secured loans		30,873,401	30,859,715
Long-term loans		10,105,183	9,268,908
Long-term secured loans		139,136,406	132,957,350
Non-performing loans		6,348,430	4,159,550
Subtotal		302,343,322	301,680,355
Less: allowance for bad and doubtful accounts		(4,439,749)	(3,276,443)
	$	**297,903,573**	**298,403,912**

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

(Continued)

For the six-month periods ended June 30, 2007 and 2006, the movements of allowance for bad and doubtful accounts were as follows:

	2007		
	Specific provision	General provision	Total
Beginning balance	$ 2,603,204	869,477	3,472,681
Add: provision for doubtful accounts	3,854,789	442,841	4,297,630
provision from assignment of business from SCB Taipei Branch	1,011	868,542	869,553
Less: write-off	2,638,646	313,648	2,952,294
Ending balance	$ 3,820,358	1,867,212	5,687,570

	2006		
	Specific provision	General provision	Total
Beginning balance	$ 2,384,399	928,677	3,313,076
Add: provision for doubtful accounts	5,451,000	824,799	6,275,799
Less: write-off	5,017,159	778,416	5,795,575
Ending balance	$ 2,818,240	975,060	3,793,300

As of June 30, 2007 and 2006, the components of allowance for bad and doubtful accounts were as follows:

	2007	2006
Loans and advances to customers (including non-performing loans)	$ 4,439,749	3,276,443
Accounts receivable	1,235,232	499,176
Other financial assets—overdue receivables	12,589	17,681
Total	$ 5,687,570	3,793,300

For the six-month periods ended June 30, 2007 and 2006, allowance for bad debt of the Bank generated from 3% of operating revenue was $270,000 thousand.

As of June 30, 2007 and 2006, the amounts of outstanding loans with interest charges suspended amounted to $10,681,685 and $6,444,409, respectively. The amounts of accrued interest derived from the aforementioned loans were $440,321 and $731,147, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of June 30, 2007 and 2006, loans and advances to customers classified by the geographical regions were as follows:

	2007	2006
Domestic	$ 296,470,379	281,736,134
Overseas	5,872,943	19,944,221
Total	$ **302,343,322**	**301,680,355**

As of June 30, 2007 and 2006, loans and advances to customers classified by industries were as follows:

	2007	2006
Manufacturing	$ 51,021,545	53,194,961
Commercial	14,462,196	14,232,395
Construction	4,658,146	11,339,516
Individual	193,522,634	198,270,286
Other	38,678,801	24,643,197
Total	$ **302,343,322**	**301,680,355**

As of June 30, 2007 and 2006, asset quality was as follows:

(expressed in thousands of New Taiwan dollars, %)

Product		Period	2007				
			Overdue loan amount	**Loan Balance**	**Overdue ratio**	**Allowance for bad debts**	**Cover rate**
Corporate Banking	Secured		4,908,639	45,668,021	10.75 %	1,818,543	37.05 %
	Unsecured		2,437,970	66,211,903	3.68 %	903,214	37.05 %
Consumer Banking	Mortgage		3,128,808	124,329,116	2.52 %	1,172,411	37.47 %
	Cash card		736	33,034	2.23 %	273	37.09 %
	Credit loan		1,033,490	42,589,716	2.43 %	413,008	39.96 %
	Others	Secured	323,746	21,314,990	1.52 %	119,949	37.05 %
		Unsecured	33,362	2,196,542	1.52 %	12,351	37.02 %
Total			11,866,751	302,343,322		4,439,749	
			Overdue	Account receivables	Overdue ratio	Allowance for bad debts	Cover rate
Credit card			21,351	17,769,293	0.12 %	837,320	3,921.69 %
Without recourse factoring			-	5,257,219	- %	-	- %

(Continued)

Product			Overdue loan amount (2006)	Loan Balance	Overdue ratio	Allowance for bad debts	Cover rate
Corporate Banking	Secured		2,950,795	47,818,838	6.17 %	1,156,927	39.21 %
	Unsecured		1,684,906	65,200,579	2.58 %	660,606	39.21 %
Consumer Banking	Mortgage		1,366,070	129,396,042	1.06 %	535,599	39.21 %
	Cash card		2,503	314,437	0.80 %	981	39.19 %
	Credit loan		2,013,959	49,458,976	4.07 %	789,619	39.21 %
	Others	Secured	242,597	6,802,756	3.57 %	95,116	39.21 %
		Unsecured	95,884	2,688,727	3.57 %	37,595	39.21 %
Total			8,356,714	301,680,355		3,276,443	
			Overdue	Account receivables	Overdue ratio	Allowance for bad debts	Cover rate
Credit card			205,638	5,154,956	3.99 %	150,321	73.10 %
Without recourse factoring			-	2,202,874	- %	-	- %

Note 1: Allowance for bad debts is disclosed in proportion to the ratio of overdue loan amount of each product to total overdue loan.

Note 2: Overdue loan amounts disclosed as others—secured and others—unsecured in consumer banking are calculated in proportion to their outstanding loan balance.

(12) Interest in Associates Under Equity Method and Financial Assets Carried at Cost

	June 30, 2007 Percentage of ownership	Investment cost	Amount	June 30, 2006 Percentage of ownership	Investment cost	Amount
Equity method:						
Hsinchu Real Estate Co., Ltd.	-	$ -	-	60.00	30,000	266,101
Hsinchu Futures Co., Ltd.	88.57	442,830	255,356	88.57	442,830	264,184
Hsinchu Insurance Agent, Ld.	100.00	21	115,725	100.00	2,000	576,523
Chuchian Insurance Agent Co., Ltd.	100.00	368	16,744	100.00	2,000	31,942
Paradigm Assets Management Co., Ltd.	20.00	98,400	95,682	20.00	60,000	60,372
		$ 541,619	483,507		536,830	1,199,122

(Continued)

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Notes to Financial Statements

	June 30, 2007			June 30, 2006		
	Percentage of ownership	Investment cost	Amount	Percentage of ownership	Investment cost	Amount
Financial assets stated at cost:						
Fubon Securities Finance Co., Ltd.	0.99	$ 38,065	38,065	0.99	38,065	38,065
Taiwan Small and Medium Enterprises Development Corp.	4.84	29,000	29,000	4.84	29,000	29,000
Taiwan Futures Exchange Co., Ltd.	0.51	10,250	10,250	0.51	10,250	10,250
Financial Information Service Co., Ltd.	1.14	45,500	45,500	1.14	45,500	45,500
Taipei Forex Inc.	3.03	6,000	6,000	3.03	6,000	6,000
TSC BioVenture Management, Inc.	5.00	20,250	20,250	5.00	20,250	20,250
Liyu Venture Investment, Inc.	4.76	21,905	21,905	4.76	38,096	38,096
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	1.36	814	814	-	-	-
Wan Chi Co., Ltd.	3.35	2,468	2,468	3.35	2,468	2,468
Taiwan Depository and Clearing Corporation	0.17	9,277	9,277	0.17	9,277	9,277
Subtotal		422,029	422,029		437,406	437,406
Less: accumulated impairment—Windance Co., Ltd.	-	-	188,500	-	-	35,627
		$ 422,029	233,529		437,406	401,779

As of June 30, 2006, the Bank's investment in associates under equity method of $934,938 and, for the six-month period ended thereon, investment income recognized by the Bank of $132,016 were calculated based on unaudited financial statements. The Bank's recorded interests in Hsinchu Futures Co., Ltd. were calculated based on audited financial statements.

For the six-month periods ended June 30, 2007 and 2006, movements for accumulated impairment of financial assets carried at cost are stated at note 14.

(13) Property and Equipment

As of June 30, 2007 and 2006, details of property and equipment were as follows:

		2007	2006
Cost:			
Land (including revaluation increments of $505,866)	$	3,505,760	3,505,760
Buildings (including revaluation increments of $10,407)		3,282,802	3,282,802
Transportation equipment		3,684	474
Other equipment		4,700,827	4,070,095
Subtotal		11,493,073	10,859,131
Less: accumulated depreciation		3,807,791	3,181,252
		7,685,282	7,677,879
Construction in progress		123,735	33,359
Prepayment for equipment		-	176,960
	$	7,809,017	7,888,198

For the six-month periods ended June 30, 2007 and 2006, movements of accumulated depreciation were as follows:

		2007	2006
Beginning balance	$	3,646,618	2,965,154
Add: depreciation		284,696	245,662
Less: disposal		123,523	29,564
Ending balance	$	3,807,791	3,181,252

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Notes to Financial Statements

(14) Other Assets

As of June 30, 2007 and 2006, details of other assets were as follows:

		2007	2006
Deferred income tax assets	$	2,235,318	981,599
Idle assets, net of accumulated impairment of $17,166 and $8,317 for 2007 and 2006, respectively		96,419	106,889
Property held for rent, net of accumulated impairment of $2,513 for 2007 and 2006		1,832,411	1,858,037
Foreclosed assets, net of accumulative impairment of $682,491 and $667,031 for 2007 and 2006, respectively		533,934	977,203
Refundable deposits		890,987	885,087
Deferred pension costs		165,542	-
Prepaid expenses		98,895	250,254
Deferred charges		480	-
Others		75,873	63,054
	$	5,929,859	5,122,123

For the six-month periods ended June 30, 2007 and 2006, movements of accumulated impairment losses for assets held by the Bank were as follows:

	2007		
	Opening balance	Impairment loss (reversal)	Ending balance
Available-for-sale financial assets	$ -	49,967	49,967
Financial assets carried at cost	188,500	-	188,500
Idle assets	17,166	-	17,166
Property held for rent	2,513	-	2,513
Foreclosed assets	1,007,635	(325,144)	682,491
	$ 1,215,814	(275,177)	940,637

	2006		
	Opening balance	Impairment loss (reversal)	Ending balance
Financial assets carried at cost	$ -	35,627	35,627
Idle assets	8,317	-	8,317
Property held for rent	2,513	-	2,513
Foreclosed assets	746,645	(79,614)	667,031
	$ 757,475	(43,987)	713,488

(Continued)

For the six-month periods ended June 30, 2007 and 2006, gain on reversal of accumulated impairment losses amounted to $325,144 and $79,614, respectively, and was recorded under other non-interest income and gain on reversal of impairment loss on assets, respectively.

The Bank leased out its office buildings under operating leases with lease terms ranging from one to five years. As of June 30, 2007, future lease payments are as follows:

Period	Amount
2007.07.01~2007.12.31	$ 43,743
2008	90,450
2009	91,564
2010	92,569
2011	57,771
2012 and thereafter	60,242
	$ 436,339

One of the operating leases for an office building leased out to Chinatrust Hotel contains fees that are calculated as a fixed amount plus a certain percentage of the hotel's operating income.

(15) Deposits and Remittances

As of June 30, 2007 and 2006, deposits and remittances were as follows:

	2007	2006
Checking deposits	$ 4,398,883	3,622,384
Demand deposits	82,509,668	37,577,428
Time deposits	79,909,771	56,531,750
Savings deposits	110,446,284	100,971,622
Time savings deposits	132,179,897	132,588,119
Remittances	72,198	125,974
	$ 409,516,701	331,417,277

As of June 30, 2007 and 2006, the maturity date for the abovementioned time deposits and demand deposits was within three years.

(16) Financial Debentures

As of June 30, 2007 and 2006, financial debentures issued by the Bank were as follows:

	2007	2006
Subordinated debentures	$ 22,800,000	18,000,000
Convertible bonds	-	547,543
	$ 22,800,000	18,547,543

(Continued)

1) Details of subordinated debentures issued by the Bank as of June 30, 2007 and 2006, were as follows:

Bond	Issue conditions	2007	2006
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	$ 6,067,400	6,067,400
91-1B	5-year term, interest payable semi-annually, based on the Bank's one-year regular floating rate plus 1.75%; maturity date: July 19, 2007	972,600	972,600
91-1C	5-year term, interest payable semi-annually, based on the Bank's one-year regular floating rate plus 1.75%; maturity date: July 19, 2007	400,000	400,000
91-1D	5-year term, interest payable semi-annually, based on the Bank's one-year regular floating rate plus 1.75%; maturity date: July 19, 2007	320,000	320,000
91-1E	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	240,000	240,000
94-1	No maturity date, interest payable semi-annually, based on the average one-year regular floating rate of the big nine banks plus 1.493%	7,636,700	7,636,700
94-2	No maturity date, interest payable semi-annually, based on the average one-year regular rate of the big nine banks plus 1.493%	2,363,300	2,363,300
95-1	7-year term, interest payable quarterly, based on the Bank's 90-day commercial paper trading rate plus 0.22%; maturity date: December 27, 2013	4,800,000	-
		$ 22,800,000	18,000,000

The board of directors approved the issuance of the first tranche of subordinated debentures of the year 2002 at a total amount of $8,000,000 thousand on April 2, 2002, which was approved on June 27, 2002, by the MOF, and the subscription was completed in July 2002. Trading of these debentures on the over-the-counter market began September 2, 2002.

The board of directors approved the issuance of the cumulative subordinated debentures without maturity dates at a total amount of $10,000,000 thousand on October 26, 2004. The FSC approved the issuance on January 3, 2005, and the subscription was completed on January 28, 2005. Trading of these debentures on the over-the-counter market began April 6, 2005.

(Continued)

The board of directors approved the issuance of the first tranche of subordinated debentures of the year 2006 at a total amount of $4,800,000 thousand on November 20, 2006. The FSC approved the issuance on December 4, 2006. Trading of these debentures on the over-the-counter market began December 27, 2006.

2) Convertible bonds

As of June 30, 2007 and 2006, details of the convertible bond issued by the Bank were as follows:

	2007	2006
Original issue size (US$110,000 thousand)	$ -	547,543

In order to improve the Bank's financial structure, the board of directors authorized the issuance of the Global Convertible Bonds ("the Bonds") on March 19, 2004. The related issuing conditions were as follows:

1. Issue size: US$110 million in principal amount.
2. Form, denomination and issue price: The Bonds will be issued at 100% of the principal amount in global registered form in denominations of US$1,000 or integral multiples thereof and will constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank.
3. Issue date: May 13, 2004.
4. Redemption on the maturity date: Unless previously redeemed, purchased and cancelled, or converted, the Bonds will be redeemed on the maturity date at a price equal to 98.50897% of the unpaid principal amount of the Bonds. The maturity date will be 5 years after the issue date.
5. Coupon rate: the indicative coupon for the Bonds is 0% per annum.
6. Conversion:
   (a) Unless previously redeemed, purchased and cancelled, or converted and except during a period in which conversion is prohibited by law, the bondholders may convert, at any time from the 31st day after the issuance of the Bonds to the date 10 days prior to the maturity date.

   (b) The Bank and the Lead Manager, in view of market conditions on the pricing date, have jointly determined to adopt a Contingent Conversion Feature. The criterion for bondholders to exercise the conversion rights before June 30, 2006, is that the closing price of common shares shall exceed the contingent conversion trigger for at least 20 trading days out of the last 30 consecutive trading days in the preceding quarter.

7. Redemption at the option of the issuer:

   (a) The Bank may redeem the Bonds in whole or in part, beginning 2 years after the issue date, at par provided that each of the closing prices of the common shares of the Bank on the Taiwan Stock Exchange Corporation (TSEC) translated into US dollars at the prevailing rate for a period of 20 consecutive trading days equals or exceeds 120% of the conversion price then in effect translated into US dollars at a fixed exchange rate set on the pricing date.

   (b) The Bank may redeem the Bonds in whole at par at any time if at least 95% in principal amount of the Bonds have already been redeemed, converted, or purchased and cancelled.

   (c) If local tax regulation changes and the Bank becomes obligated to pay additional interest, the Bonds may be redeemed at any time at the option of the issuer, in whole but not in part, at a price of par.

8. Conversion securities: The Bonds will be converted into newly issued common shares of the Bank. However, if the Bank sets up a global depositary receipts ("GDR") program in the future, the bondholders may elect to convert the Bonds into GDRs of the Bank after the bank obtains SFB approval.

9. Conversion price: The conversion price was NT$22.4 per common share, at a premium of 33% above the closing price of common shares on the pricing date. In addition, due to the appropriation of year 2004 earrings, the conversion price has been adjusted to NT$20.25 per common share since August 24, 2005.

In May 2006, the Bank redeemed the Bonds at a price equal to 99.4009% of the unpaid principal amount of the Bonds. The difference between the payment (NT$2,911,379) thousand and carrying amount (US$93,100) thousand of the Bonds was NT$18,177 thousand and was recognized as non-interest income.

In October 2006, the bondholders converted the rest of the outstanding convertible bonds into 30,573 thousand new common shares, resulting in NT$216,106 thousand of paid-in capital in excess of par.

(17) Other Non-interest Income (Loss)

		2007	2006
Securities brokerage commissions	$	135,433	118,552
Rentals		47,169	46,205
Gain on disposal of assets and foreclosed assets		219,287	44,820
Collection of written-off accounts receivable		743,404	459,727
Gain (loss) on disposal of investments carried at cost		2,340	(5,532)
Others		(12,073)	59,654
Total	$	1,135,560	723,426

(Continued)

(18) Pension

For the six-month periods ended June 30, 2007 and 2006, the related pension assets, costs, and accrued liabilities of the Bank were as follows:

		2007	2006
Fair value of pension assets at end of period	$	1,708,287	1,345,312
Pension cost:			
Defined benefit pension scheme		81,216	89,032
Defined contribution pension scheme		35,763	146,014
Accrued pension liabilities—noncurrent at end of period		97,668	-

(19) Income Tax

The Bank is subject to ROC income tax at a maximum rate of 25%. Starting from January 1, 2006, the Bank adopted the ROC "Income Basic Tax Act". The income tax expense (benefit) for the six-month periods ended June 30, 2007 and 2006, were as follows:

		2007	2006
Current income tax expense	$	77,036	56,131
Deferred income tax expense (benefit)		207,148	(388,231)
Income tax expense (benefit)	$	**284,184**	**(332,100)**

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Notes to Financial Statements

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-month periods ended June 30, 2007 and 2006, were as follows:

		2007	2006
Income tax at statutory rate	$	(230,426)	(783,022)
Adjustment:			
Non-deductible tax expense on overseas income		342	452
Tax-exempt OBU income		(8,740)	(1,030)
Tax-exempt income from securities trading		(90,030)	(205)
Net unrealized gain on valuation of trading financial assets and liabilities		26,659	4,727
Non-deductible loss on disposal of land		-	5,254
Adjustments for separately taxed interest income		(16,681)	(25,059)
Recognition of investment income under equity method		(14,969)	(33,004)
Difference adjustments of prior years' income tax		-	1,758
Expiration of loss carryforwards		521,415	-
Overestimation (underestimation) of prior years' loss carryforwards		(1,069)	103,240
Investment tax credit—employee training costs		(1,808)	(1,942)
Other reconciling items		5,910	10,421
Allowance valuation		93,581	386,310
Income tax expense (benefit)	$	**284,184**	**(332,100)**

(Continued)

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Notes to Financial Statements

For the six-month periods ended June 30, 2007 and 2006, the components of deferred income tax expense (benefit) were as follows:

		2007	2006
Recognition of investment loss under equity method	$	(1,766)	(781)
Allowance for bad debt in excess of limit		(400,065)	(59,311)
Reversal of (provision for) reserve for default losses and transaction losses		(963)	11,498
Gain of reversal of impairment losses		81,286	19,904
Pension costs in excess of limit		(314)	-
Realized gain on inter-affiliate transactions		12	20
Expiration of loss carryforwards		521,415	-
Overestimation (underestimation) of prior years' loss carryforwards		(1,069)	103,240
Increase in loss carryforwards		(83,161)	(847,169)
Investment tax credit—employee training cost		(1,808)	(1,942)
Allowance valuation		93,581	386,310
Deferred income tax expense (benefit)	$	**207,148**	**(388,231)**

As of June 30, 2007, deferred income tax assets held by the Bank that were provided by assignment of business from Standard Chartered Bank, Taipei Branch were listed below:

		2007	2006
Allowance for bad debt in excess of limit	$	587,261	-
Unrealized interest income on financial assets		722,428	-
Others		27,119	-
	$	**1,336,808**	**-**

As of June 30, 2007 and 2006, the deferred income tax assets were as follows:

		2007	2006
Deferred income tax assets	$	3,370,139	1,962,879
Valuation allowance—deferred income tax assets		(1,134,821)	(981,280)
Deferred income tax assets, net	$	**2,235,318**	**981,599**

(Continued)

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As of June 30, 2007 and 2006, details of the temporary differences, loss carryforwards, tax credits and their respective income tax effect were as follows:

	2007		2006	
	Amount	**Income tax effect**	**Amount**	**Income tax effect**
Deferred income tax assets:				
Investment loss recognized under equity method	$ 62,110	16,330	56,491	14,123
Allowance for bad debts in excess of tax limit	3,086,572	771,643	1,569,780	392,445
Reserve for default losses	62,233	15,558	55,713	13,928
Reserve for trading losses	-	-	323	81
Impairment losses	702,171	175,543	680,861	170,215
Pension reserve	1,257	314	-	-
Unrealized gain on inter-affiliate transaction	6,118	1,530	6,248	1,562
Loss carryforwards	6,522,924	1,630,731	5,474,334	1,368,583
Investment tax credit—employee training costs	8,943	8,943	1,942	1,942
Unrealized interest income on financial assets	2,889,712	722,428	-	-
Others	108,476	27,119	-	-
		$ 3,370,139		1,962,879

As of June 30, 2007 and 2006, the components of estimated income tax receivable recorded under accounts receivable were as follows:

	2007	2006
Current income tax	$ 77,036	56,131
Withheld income tax	(32,580)	(25,679)
Receivable from prior years' tax refund	(244,713)	(366,295)
Adjustments on prior years' income tax	-	(1,758)
Separate taxation	(76,694)	(53,921)
Non-deductible tax on overseas income	(342)	(452)
	$ (277,293)	(391,974)

(Continued)

In accordance with the ROC Income Tax Act, assessed net losses can be carried forward for five consecutive years to reduce taxable income. As of June 30, 2007, the amount of losses and the year of expiry were as follows:

Year incurred		Amount	Year of expiry
2006	$	6,190,278	2011
2007 (estimated)		332,646	2012
	$	6,522,924	

Pursuant to the ROC Statute for Upgrading Industries, the Bank's unused investment tax credit—employee training cost as of June 30, 2007, was as follows:

Year incurred		Amount	Year of expiry
2006	$	7,135	2010
2007 (estimated)		1,808	2011
	$	8,943	

Except for the year 2003, the Bank's income tax returns have been examined by the tax authority for all years through 2004.

The balance of the imputation credit account (ICA) as of June 30, 2007 and 2006, was as follows:

		2007	2006
ICA	$	139,107	129,559

The accumulated deficits on June 30, 2007 and 2006, were generated after 1998.

(20) Stockholders' Equity

1) Common stock

On June 8, 2007, the board of directors decided to increase capital through private placement of 10,000 thousand shares as the consideration to take over the operation of Standard Chartered Bank, Taipei Branch. The aforementioned capital increase was approved by the FSC on June 14, 2007. The designation date for the capital increase was June 30, 2007, and the related registration has been completed.

On June 8, 2007, the board of directors decided to increase capital through private placement of 493,055 thousand shares at $20 per share. The aforementioned capital increase was approved by the FSC on June 27, 2007. The designation date for the capital increase was June 30, 2007, and the related registration has been completed.

On May 21, 2007, the shareholders decided to recover accumulated deficits by offsetting with legal reserve and capital surplus amounting to $3,228,441 and $224,130, respectively.

One June 9, 2006, the shareholders decided to declare cash dividends of $1 per share totaling $1,574,536 and stock dividends of $0.31 per share totaling $494,079. The aforementioned stock dividends caused outstanding shares to increase by 49,408 thousand shares, and the balance of authorized and issued capital of the Bank amounted to $19,000,000 and $16,239,437, respectively. The aforementioned capital increase was approved by the FSC on July 3, 2006. The designation date for the capital increase was August 14, 2006, and the related registration has been completed.

2) Capital surplus

The ROC Company Act requires that capital surplus only be used to offset an accumulated deficit or be transferred to capital and not be used to distribute cash dividends. Realized capital surplus mentioned above includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Bank. The amount of capital surplus capitalized each year may not exceed a certain percentage of the Bank's issued share capital. Issuance of new stock from capital surplus from cash subscription in excess of par value of common stock can be made only once per year, and cannot be made in the same year as cash subscription.

As of June 30, 2007 and 2006, details of capital surplus were as follows:

		2007	2006
Paid-in capital in excess of par value	$	5,049,109	8,024
Gain on disposal of treasury stock		-	893
Others		406	-
	$	5,049,515	8,917

3) Legal reserve and appropriated special reserve

After paying all taxes as required, the annual net income will be distributed to appropriate 30% as legal reserve. The Bank cannot distribute cash dividends exceeding 15% of total share capital until legal reserve reaches an amount equal to total share capital. In addition, apart from the appropriation of legal reserve from retained earnings, the Bank also appropriated special reserve in accordance with the Bank's articles of incorporation or the shareholders' resolution.

4) Dividend policy and appropriation of earnings

In order to increase profitability and maintain the risk-based capital ratio, the dividend policy of the Bank follows a capital budgeting plan. Stock dividends will be distributed first in order to retain sufficient capital, and the remaining earnings will be distributed in the form of cash dividends, which must not be less than 10 percent of the total dividends. However, the Bank could issue stock dividends instead when cash dividends are less than NT$0.1 per share.

5) Weighted-average outstanding shares of common stock

As of June 30, 2007 and 2006, the weighted-average outstanding shares of common stock were 1,654,517 thousand shares and 1,574,536 thousand shares, respectively.

(Continued)

(21) Disclosure of Financial Instruments

1) Fair value of financial assets

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

1. The book values 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, balance at Central Bank and loans to banks, bills and bonds purchased under reverse repurchase agreements, accounts receivable, refundable deposits recorded as other assets, deposits by Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, and guarantee deposits.

2. The fair values of financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets are 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. The estimates and assumptions of the valuation techniques adopted by the Bank are identical to those adopted by other market participants.

3. The interest on loans and advances to customers is based on floating rates. Thus, the book value is the fair value.

4. 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.

5. Most deposits and remittances mature in less than one year, and thus the book value is the fair value. The fair value of deposits with maturity over one year is the net present value of future cash flows.

6. The subordinated debentures are financial liabilities with floating interest rates, and thus their fair value is equal to their carrying value.

7. Fair values of the convertible bonds (the Bonds) are estimated based on their carrying values on the balance sheet. As the coupon rate on the Bonds is 0% and the date of redemption is uncertain, it is difficult to calculate the present value of the Bonds. In addition, the carrying amount of the Bonds is adjusted based on the prevailing spot exchange rate on the balance sheet date. Therefore, fair values of the Bonds are estimated based on their carrying amount on the balance sheet.

8. When derivatives 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 by using the rates quoted on the Kondor system to discount their future cash flows to present values; interest rate swap and cross-currency swap contracts are evaluated individually by using quotes from counterparties or from the Reuters system to discount their future cash flows to present value.

(Continued)

As of June 30, 2007 and 2006, the fair values of the Bank's financial assets and liabilities evaluated by using valuation techniques were as listed below:

Accounts	2007	2006
Financial assets held at fair value through profit or loss	16,526,931	8,520,126
Available-for-sale financial assets—beneficiary certificates	5,189,010	-
Held-to-maturity financial assets	-	24,500,791
Financial liabilities held at fair value through profit or loss —derivatives	18,846,199	57,568

For the six-month periods ended June 30, 2007 and 2006, the Bank recognized losses and gains amounting to $28,904 and $60,440, respectively, from the changes in fair value of financial instruments that were evaluated by using valuation techniques.

The fair value of financial assets and liabilities exposed to the risks of changes in interest rates were $93,594,321 and $28,551,897, respectively, as of June 30, 2007, and $61,590,158 and $41,582,814, respectively, as of June 30, 2006. Moreover, as of June 30, 2007 and 2006, cash flows of financial assets exposed to cash flow the risks due to changes in interest rates were $6,223,272 and $20,506, respectively.

2) As of June 30, 2007 and 2006, outstanding derivative contracts held by the Bank were as listed below:

	2007		
		Fair value	
	Notional amount	Gain (assets)	Loss (liabilities)
Option contracts purchased	$ 607,849	125,454	-
Option contracts sold	592,383	-	125,749
Forward foreign exchange contracts	3,544,489	8,338,389	8,857,129
Non-delivery forward contracts	1,146,775	3,639	-
Interest rate swaps	7,224,798	6,223,272	4,423,950
Cross-currency swaps	339,700	1,836,177	5,439,371
	$ 13,455,994	16,526,931	18,846,199

(Continued)

		June 30, 2006	
		Fair value	
	Notional amount	Gain (assets)	Loss (liabilities)
Option contracts purchased	$ 997,553	12,540	-
Option contracts sold	997,553	-	12,540
Forward foreign exchange contracts	6,218,629	3,405	44,233
Cross-currency swaps	1,369,300	119,144	-
Currency swaps	364,396	-	795
Interest rate swaps	5,893,333	20,506	-
	$ 15,840,764	155,595	57,568

3) Financial risk management and risk information

1. Market risk

The Bank has been applying value at risk to assess the market risk of financial instruments since 2006. When negative changes in market factors arise, the value at risk states the potential losses at certain holding periods and reliance levels. The Bank estimated its value at risk for each held or issued financial instrument based on the fluctuation of the related historical price in the past year.

The table below lists the market risk of financial instruments of the Bank as of June 30, 2007 and 2006. Market risk represents potential losses that the Bank may suffer in one day when unfavorable changes occur that go against the Bank's position at a 99% confidence level under a certain price probability distribution. Market risk factors include foreign exchange rates and interest rates, and the aforementioned market risk did not include an assessment for positions held by the Bank that were provided by assignment of business from Standard Chartered Bank, Taipei Branch. Moreover, the aforementioned 99% confidence level represents the probability that, during the 250 trading days in a year, potential losses of the Bank may exceed the risk disclosed in the following table in one day out of every 100 trading days due to market fluctuations.

	2007			2006		
Type of market risk	Annual average	Maximum	Minimum	Annual average	Maximum	Minimum
Exchange rate	$ 59,524	116,257	30,727	52,431	112,089	13,087
Interest rate	42,824	118,145	11,244	69,655	169,465	25,715
Equity price	23,048	31,740	16,303	106,388	186,731	56,412
Market price	104,012	151,767	46,222	118,678	143,231	91,162

The table below lists the market risk of financial assets and liabilities held by the Bank that were provided by assignment of business from Standard Chartered Bank, Taipei Branch. Market risk represents potential losses that the Bank may suffer in one day when unfavorable changes that go against the position at a 97.5% confidence level under a certain price probability distribution.

The aforementioned 97.5% confidence level represents the probability that potential losses of the Bank may exceed the risk disclosed in the following table in one day out of every 40 trading days due to market fluctuations.

	2007		
Type of market risk	**Annual average**	**Maximum**	**Minimum**
Exchange rate	$ 2,593	5,857	738
Interest rate	6,879	13,501	4,130

2. 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 with professional care. As of June 30, 2007 and 2006, the percentage of loans with collateral was 62% and 60%, respectively, and the percentage for guarantees issued plus letters of credit issued with collateral was 11% and 23%, 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/contracts, the Bank has rights over the collateral, which can mitigate the credit risk. However, when disclosing the amount of maximum credit risk exposure, the fair values of collateral are ignored.

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

As of June 30, 2007, the Bank's significant group concentrations of credit risk, summarized by industry category, were as follows:

	2007		2006	
Industry	**Book value**	**Maximum credit risk exposure**	**Book value**	**Maximum credit risk exposure**
Individual	$ 193,522,633	3,739,334	198,270,286	1,406,117
Commercial	14,462,196	6,102,978	14,232,395	771,286
Manufacturing	51,021,545	8,794,922	53,194,961	205,289
Construction	4,658,147	420,821	11,339,516	201,289
Others	38,678,801	11,764,871	24,643,197	148,740
	$ 302,343,322	30,822,926	301,680,355	2,732,721

(Continued)

Credit risk exposure of the Bank was equal to the financial instruments that remain positive on the balance sheet date, except for loans and advances to customers that were disclosed in the preceding table.

As of June 30, 2007 and 2006, the credit risk concentration by company was as follows:

Unit: thousand dollars, %

June 30, 2007			
Rank	**Group Company**	**Outstanding loan**	**% of net assets**
1	Chi Mei Group	5,498,526	24.00 %
2	AUO Group	4,258,071	19.00 %
3	CPC Corporation	3,009,405	13.00 %
4	Formosa Plastics Group	2,918,737	13.00 %
5	Pou Chen Group	2,913,093	13.00 %
6	Ta-Tung Group	2,513,740	11.00 %
7	Ta-Yuan Group	2,327,069	10.00 %
8	Chinatrust Group	2,293,708	10.00 %
9	LIMAX Computer Group	2,105,265	9.00 %
10	ChiMOS Technologies Group	1,690,361	7.00 %

June 30, 2006			
Rank	**Group Company**	**Outstanding loan**	**% of net assets**
1	Chinatrust Group	2,709,355	16.00 %
2	Ta-Tung Group	2,500,873	14.00 %
3	Ta-Yuan Group	2,319,631	13.00 %
4	PSC Group	2,266,130	13.00 %
5	AUO Group	2,261,849	13.00 %
6	Mosel Vitelic Group	2,012,398	12.00 %
7	ChiMOS Technologies Group	1,410,439	8.00 %
8	Uni-President Group	1,213,391	7.00 %
9	Wei-Jing Group	1,027,559	6.00 %
10	Kolin Group	949,024	5.00 %

(Note) The above-listed group companies are disclosed in accordance with the group definition defined in the sixth article of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

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

(Continued)

3. Liquidity risk

As of June 30, 2007 and 2006, the liquidity reserve ratio was 21.87% and 10.00%, respectively; the Bank has enough operating capital to fulfill all contractual obligations, and thus the probability of loss due to liquidity risk is remote. Liquidity risk of derivative instruments held by the Bank is low except for interest rate swaps, which had a leverage effect. Thus, there is no significant liquidity risk.

One of the most important aspects of the Bank's management is to match its assets and liabilities with related interest rates and durations. Due to varieties and uncertainties of contractual terms, the interest rates and maturity dates of assets and liabilities may not be matched, which may cause considerable impact on the liquidity profile of the Bank. As of June 30, 2007 and 2006, the liquidity of the Bank was as assessed below by groups of interest-earning assets and interest-bearing liabilities over various duration periods from the balance sheet date to an individual contract's maturity.

Unit: thousand dollars

	2007								
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**	**Total**
Financial assets held at fair value through profit or loss—notes and bonds	$ 43,333	3,829,462	1,215,065	10,293,684	200,131	-	2,020,017	2,487,257	20,088,949
Available-for-sale financial-assets—bonds	12,602,460	18,164,316	27,839,192	5,532,477	3,857,106	6,409,690	5,184,996	14,943,589	94,533,826
Loans and advances to banks	34,234,398	14,707,631	81,837	-	-	-	-	-	49,023,866
Loans and advances to customers (note 1)	16,268,314	22,168,738	38,213,484	29,068,781	20,658,269	20,883,248	17,010,674	131,723,384	295,994,892
	$ 63,148,505	58,870,147	67,349,578	44,894,942	24,715,506	27,292,938	24,215,687	149,154,230	459,641,533
Liabilities									
Financial debentures	$ -	-	-	8,000,000	-	-	-	14,800,000	22,800,000
Time deposits—NTD (notes 2 and 3)	30,355,274	42,757,890	108,806,556	5,307,520	3,123,054	-	1,940	1,000,000	191,352,234
Time deposits—foreign currency	10,979,548	4,854,954	4,899,461	3,470	-	-	-	-	20,737,433
Deposit by other banks	24,628,515	-	-	-	-	-	-	-	24,628,515
Loans from Central Bank and other banks	1,644,878	-	-	-	-	-	-	-	1,644,878
	$ 67,608,215	47,612,844	113,706,017	13,310,990	3,123,054	-	1,940	15,800,000	261,163,060

Unit: thousand dollars

	2006								
Assets	**Within 1 month**	**1~3 month**	**3 months ~ 1 year**	**1~2 years**	**2~3 years**	**3~4 years**	**4~5 years**	**Over 5 years**	**Total**
Financial assets held at fair value through profit or loss—notes and bonds	$ 5,739,859	2,406,907	200,107	51,000	12,710	15,900	14,378	596,844	9,037,705
Available-for-sale financial-assets—bonds	-	-	-	70,212	744,778	1,882,892	1,731,727	6,133,985	10,563,594
Held-to-maturity financial assets	16,403,000	1,675,189	5,049,242	1,204,525	2,598,433	4,422,591	7,821,624	4,319,323	43,493,927
Loans and advances to banks	4,780,992	945,270	2,590,977	-	-	-	-	-	8,317,239
Loans and advances to customers (note 1)	10,345,419	20,370,062	26,818,921	12,999,647	20,555,933	16,317,219	17,444,646	172,668,958	297,520,805
	$ 37,269,270	25,397,428	34,659,247	14,325,384	23,911,854	22,638,602	27,012,375	183,719,110	368,933,270
Liabilities									
Financial debentures	$ -	-	-	8,000,000	-	547,543	-	10,000,000	18,547,543
Time deposits—NTD (notes 2 and 3)	25,101,211	38,825,182	120,627,051	4,159,556	2,807,260	-	-	-	191,520,260
Time deposits—foreign currency (note 2)	2,972,734	2,449,175	2,866,577	-	-	-	-	-	8,288,486
Deposits by other banks	6,400,000	-	-	-	-	-	-	-	6,400,000
Loans from Central Bank and other banks	744,180	447,590	647,980	-	-	-	-	-	1,839,750
	$ 35,218,125	41,721,947	124,141,608	12,159,556	2,807,260	547,543	-	10,000,000	226,596,039

(Continued)

Note 1: Non-performing loans are excluded.

Note 2: Time deposits include time deposits and savings deposits.

Note 3: Negotiable of deposit are excluded.

4) Cash flow risk and fair value risk from changes in interest rate

Future cash flow from the assets and liabilities with floating interest rates held by the Bank may fluctuate due to the changes in market interest rates. In order to mitigate the risk, the Bank has entered into interest rate swap contracts after related assessments.

As of June 30, 2007 and 2006, 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.

Unit: thousand dollars

	June 30, 2007							
Assets	**Within 1 month**	**1~3 months**	**3 months ~ 1 year**	**1~2 years**	**2~3 years**	**3~4 years**	**Over 5 years**	**Total**
Loans and advances to customers								
Medium-term loan	$ -	-	315,000	2,568,320	526,000	-	-	3,409,320
Sensitivity gap	$ -	-	315,000	2,568,320	526,000	-	-	3,409,320

Unit: thousand dollars

	June 30, 2006							
Assets	**Within 1 month**	**1~3 months**	**3 months ~ 1 year**	**1~2 years**	**2~3 years**	**3~4 years**	**Over 5 years**	**Total**
Available-for-sale financial assets								
Financial debentures	$ -	-	-	-	400,000	-	185,262	585,262
Loans and advances to customers								
Medium-term loan	-	-	-	345,000	8,391,666	150,000	-	8,886,666
Sensitivity gap	$ -	-	-	345,000	8,791,666	150,000	185,262	9,471,928

5) Operational risk

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

6) Legal risk

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

(Continued)

(22) Related-party transactions

1) Name and relationship of related party

Name	Relationship
Standard Chartered Bank Ltd. (SCB)	The Bank's parent company (effective November 2, 2006, SCB obtained the majority of the Bank's voting shares)
Hsinchu Futures Co., Ltd.	Investee under equity method
Hsinchu Insurance Agent Co., Ltd.	Investee under equity method
Chuchain Insurance Agent Co., Ltd.	Investee under equity method
International Bills Financial Corporation	A former chairman of the Bank was a family member within the second degree of a company director (the former chairman of the Bank resigned on October 19, 2006)
Hsinchu Real Estate Co., Ltd. (Hsinchu Real Estate)	Investee under equity method (the Bank's share in Hsinchu Real Estate were fully disposed of on November 10, 2006)
Tae Huai Co., Ltd. (Tae Huai)	A former chairman of the Bank was a family member within the second degree of a company director (the former chairman of the Bank resigned on October 19, 2006)
Chu Cheng Construction Co., Ltd. (Chu Cheng Construction)	Investee under equity method of Hsinchu Real Estate (the Bank's share in Hsinchu Real Estate were fully disposed of on November 10, 2006 and thus its affiliates was no longer the Bank's)
Cheng Hwa Investment Co., Ltd. (Cheng Hwa Investment)	A former chairman of the Bank was the chairman of the company (the former chairman of the Bank resigned on October 19, 2006)
Hwa Wan Investment Co., Ltd. (Hwa Wan Investment)	A former chairman of the Bank was the chairman of the company (the former chairman of the Bank resigned on October 19, 2006)
Shan Dae Investment Co., Ltd. (Shan Dae Investment)	A former chairman of the Bank was the chairman of the company (the former chairman of the Bank resigned on October 19, 2006)
Chao Man Co., Ltd. (Chao Man)	A former chairman of the Bank was a family member within the second degree of a company director (the former chairman of the Bank resigned on October 19, 2006)
Standard Chartered Bank New York	Affiliate
Standard Chartered Bank London	Affiliate
Standard Chartered Bank Tokyo	Affiliate
Others	Deemed related parties in accordance with SFAS No. 6, "Related-Party Disclosures"

2) Significant transactions with related parties

1. Deposits

As of June 30, 2007 and 2006, deposits provided by related parties were as summarized below:

2007			
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 1,002,197	0.24	0.00~8.00

2006			
Name	**Ending balance**	**Percentage of deposits (%)**	**Interest rate (%)**
Deposits by individual related parties not over 1% of total deposits	$ 1,947,167	0.59	0.00~8.00

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

For the six-month periods ended June 30, 2007 and 2006, interest expenses on the above deposits were $5,321 and $11,761, respectively.

2. Loans

As of June 30, 2007 and 2006, loans to related parties were as summarized below:

Unit: thousand dollars

2007							
				Repayment			
Type of loan	Number of accounts or name of related party	Maximum during the period	Ending balance	On-time	Overdue	Collateral	Difference between terms and conditions offered to the accounts and to the general public
Employee credit loan	42	37,248	25,506	25,506	-	House, unsecured	None
Mortgage	48	105,300	91,337	91,337	-	House	Note

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2006							
				Repayment			
Type of loan	Number of accounts or name of related party	Maximum during the period	Ending balance	On-time	Overdue	Collateral	Difference between terms and conditions offered to the accounts and to the general public
Employee credit loan	64	216,976	188,586	188,586	-	House, unsecured	None
Mortgage	65	181,953	170,340	170,340	-	House	None
Others	Hsinchu Real Estate	249,200	249,200	249,200	-	Land	None
Others	Tae Huai	5,000	5,000	5,000	-	House	None
Others	Chu Cheng Construction	825,552	809,013	809,013	-	House and others	None
Others	Cheng Hwa Investment	43,350	37,850	37,850	-	House	None
Others	Hwa Wan Investment	262,710	246,966	246,966	-	House, securities and others	None
Others	Shan Dae Investment	42,000	-	-	-	House and securities	None
Others	Chao Man	5,460	5,460	5,460	-	Small and Medium Enterprise Credit Guarantee Fund	None

For the six-month periods ended June 30, 2007 and 2006, interest income resulting from the above loans was $1,483 and $27,773, respectively.

3. Deposits with affiliates

As of and for the six-month period ended June 30, 2007, deposits with affiliates and related interest income were as follows:

	2007		
	Balance	Interest rate	Interest income
Standard Chartered Bank New York	182,009	3.78~3.87	7,771
Standard Chartered Bank London	100,380	4.25~6.25	-
Standard Chartered Bank Tokyo	104,111	-	-
Other	113,015	-	-
	$ 499,515		7,771

For the six-month period ended June 30, 2006, there was no such transaction.

(Continued)

4. Loans and advances to affiliates

As of and for the six-month period ended June 30, 2007, loans and advances to affiliates and related interest income were as follows:

	2007		
	Balance	**Interest rate**	**Interest income**
Standard Chartered Bank London	1,454,676	2.20~6.00	-
Standard Chartered Bank Tokyo	1,899,631	5.46	-
	$ 3,354,307		-

For the six-month period ended June 30, 2006, there was no such transaction.

5. Deposits by affiliates

As of and for the six-month period ended June 30, 2007, deposits by affiliates and related interest income were as follows:

	2007		
	Balance	**Interest rate**	**Interest expense**
Standard Chartered Bank London	3,698,735	5.30	-
Standard Chartered Bank Tokyo	8,236,465	5.39~5.32	-
Other	237,456	0.00~5.59	-
	$ 12,172,656		-

For the six-month period ended June 30, 2006, there was no such transaction.

6. Property transactions

As of June 30, 2006, details of securities transactions entered into between the Bank and its related parties were as listed below:

	2006		
	Type of security	**Purchase price**	**Selling price**
International Bills Financial Corporation	Bill (recorded as trading financial assets under financial assets held at fair value through profit or loss)	$ 319,764	-

There was no such transaction for the six-month period ended June 30, 2007.

(Continued)

7. Bills and bond purchased (sold) under reverse repurchase (repurchase) agreements

   For the six-month periods ended June 30, 2007 and 2006, details of bond transactions engaged in with affiliated parties were as follows:

		2006		
Name	**Highest balance**	**Ending balance**	**Interest rate (%)**	**Interest (income) expense**
Repurchase:				
International Bills Financial Corporation	$ 1,936,971	750,767	1.385~1.440	9,147
Other	31,039	6,011	1.250~1.420	112
Total		$ 756,778		9,259
Reverse repurchases				
International Bills Financial Corporation	$ 340,387	195,974	1.450~1.580	(1,192)

   For the six-month period ended June 30, 2007, there was no such transaction.

8. 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 Hsinchu Insurance Agent Co., Ltd. The contracted selling price was $42,500 and the gain on disposal, net of book value and the related expenses, was $23,130. The Bank transferred the ownership in January 2005. As of June 30, 2007, unrealized gains from affiliated-company transactions amounted to $22,930 thousand and were recorded as "other liabilities".

9. As of June 30, 2007 and 2006, administration fee payable to SCB amounted to $1,089,602 and $0, respectively.

(23) Pledged Assets

		Amount	
Pledged assets	**Pledged for**	**June 30, 2007**	**June 30, 2006**
Bonds (recorded as available-for-sale financial assets and held-to-maturity financial assets as of June 30, 2007 and 2006, respectively)	Provisional seizure	$ 638,380	931,650
	Overdraft credit	-	3,000,000
	Securitization of mortgage loans	740,048	846,451
Total		$ 1,378,428	4,778,101

Fair values of underlying assets of bills and bonds sold under repurchase agreements are disclosed at note (8).

Refundable security deposits regulated by relevant bank operation regulations:

Pledged assets	Pledged for	Amount June 30, 2007	Amount June 30, 2006
Time deposits and bonds (recorded as available-for-sale financial assets and held-to-maturity financial assets as of June 30, 2007 and 2006, respectively)	Reserve for trust business	$ 96,642	47,225
	Security deposits for bill trading operations	97,553	47,225
	Security deposits for futures trading	57,254	56,670
	Security deposits for security brokerage	209,931	207,791
	Security deposits for bond trading	187,514	130,870
Total		$ 648,894	489,781

1) Reserves for trust business are deposits that the Bank provided the Central Bank of China for its trust custodian business.

2) Assets pledged for provisional seizure are collateral placed with the court in order to execute the Bank's right over debtors' properties.

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

4) Security deposits for bond trading are deposits placed in the OTC for the Bank's government bond trading business. Furthermore, reserve for trading losses has been set to conform with securities regulations.

(24) Commitments and Contingent Liabilities

1) Significant purchase agreements

As of June 30, 2007 and 2006, the Bank had construction agreements for expansion and renovation of buildings amounting to $170,359 and $63,876, respectively. The unpaid amounts of those agreements was $46,624 and $33,359, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2) Operating leases

The Bank has entered into certain operating leases for its branches. As of June 30, 2007, estimated minimum future lease payments were as follows:

Fiscal year	Amount
July 1 to December 1, 2007	$ 242,656
2008	281,513
2009	184,905
2010	166,970
2011 and thereafter	322,045
	$ 1,198,089

3) Others

	June 30, 2007	June 30, 2006
Consignment collection for others	$ 25,138,981	25,473,245
Traveller's checks held on consignment for sale	86,638	109,507
Securities and goods in custody and other trust assets	21,236,963	23,829,747
Trust assets	148,946,977	50,451,976
	$ 195,409,559	99,864,475
Unused lines of credit	$ 75,724,368	71,529,461
Other guarantees	$ 17,479,692	9,016,885
Letters of credit issued	$ 8,293,972	2,276,133
Securities sold under repurchases agreements	$ 3,747,179	23,598,870
Securities purchased under reverse repurchase agreements	$ 2,061,438	295,894

4) As of and for the six-month periods ended June 30, 2007 and 2006, disclosures required by Article 17 of the Trust Enterprise Law on trust balance sheets and trust assets were as follows:

Trust Balance Sheet

2007

Trust assets		Trust liabilities	
Bank deposits	$ -	Trust-capital—pecuniary trust	$ 146,636,540
Short-term investments	148,946,977	Trust-capital—securities trust	2,310,437
Total trust assets	$ 148,946,977	Total trust liabilities	$ 148,946,977

(Continued)

Trust Balance Sheet

2006

Trust assets		Trust liabilities	
Short-term investments	$ 50,451,976	Trust-capital — securities trust	$ 50,451,976
Total trust assets	**$ 50,451,976**	Total trust liabilities	**$ 50,451,976**

Trust Income Statement

	2007
Trust revenue:	
Interest revenue	$ 67
Common stock dividends — cash	1,448
Unrealized gain on investments	88,185
Exchange gain	39
	89,739
Trust expenses:	
Management expenses	73
Service charges	164
Construction expenses	115,260
Unrealized loss — mutual fund	847
Exchange loss	40
	116,384
Net loss before income tax	(26,645)
Income tax expense	4
Net loss after income tax	**$ (26,649)**

Schedule of investment for trust business

June 30, 2007

Invested items	**Amount**
Short-term investments:	
Mutual funds	$ 133,930,877
Securities	15,016,100
	$ 148,946,977

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Schedule of investment for trust business

June 30, 2006

Investment items	Amount
Short-term investments:	
Mutual funds	$ 50,451,976

Foreign currency pecuniary trust business engaged in by the Offshore Banking Unit (OBU) as of June 30, 2007, is included in the trust balance sheet and schedule of investment for trust business. The OBU did not engage in foreign currency pecuniary trust business as June 30, 2006.

(25) Significant Disaster Loss: none.

(26) Subsequent Events: none.

(27) Others

1) Summary of personnel costs and depreciation, depletion and amortization expenses

A summary of staff costs and depreciation, depletion and amortization expenses for the six-month periods ended June 30, 2007 and 2006, is as follows:

Function / Account	2007			2006		
	Cost of goods sold	**Operating expenses**	**Total**	**Cost of goods sold**	**Operating expenses**	**Total**
Staff costs:						
Salaries	-	1,559,063	1,559,063	-	1,306,880	1,306,880
Labor and health insurance	-	85,089	85,089	-	84,433	84,433
Pension	-	116,979	116,979	-	235,046	235,046
Other employment	-	55,556	55,556	-	54,411	54,411
Depreciation	-	285,003	285,003	-	272,229	272,229
Depletion	-	-	-	-	-	-
Amortization	-	3,708	3,708	-	1,493	1,493

2) Reclassification

For the six-month period ended June 30, 2007, certain amounts have been reclassified and presented to conform to the financial statements for the six-month period ended June 30, 2006. The financial statements are not significantly affected by such reclassifications.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

3) Net cash equivalents provided by assignment of business from Standard Chartered Bank, Taipei Branch on June 30, 2007, were as listed below:

	2007
Assets	(131,461,429)
Liabilities	132,249,379
Common stock	100,000
Capital surplus	118,556
Net cash inflow provided by business assignment	**1,006,506**

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

1. Information on interest-bearing assets and liabilities:

	2007	
	Average amount	**Average %**
Assets:		
Balance at Central Bank	$ 14,664,368	0.73
Loans and advances to banks	51,428,244	3.87
Financial assets held at fair value through profit or loss	30,369,544	1.36
Loans and advances to customers	319,857,853	2.65
Available-for-sale financial assets	64,028,126	2.05
Liabilities:		
Deposits by and loans from other banks	30,990,475	4.92
Demand deposits—NTD	171,390,218	0.20
Demand deposits—foreign currency	15,968,683	0.70
Time deposits—NTD	202,513,072	1.10
Time deposits—foreign currency	18,492,302	3.54
Negotiable certificates of deposit	2,222,338	1.73
Subordinated financial debentures	20,400,000	1.98

(Continued)

	2006 Average amount	2006 Average %
Assets:		
Balance at Central Bank	11,661,848	1.10
Trading securities — bonds	1,130,903	1.33
Available-for-sale financial assets — bonds	12,071,727	2.23
Held-to-maturity financial assets — bonds	16,327,570	0.81
Loans to and advances banks	8,863,334	2.75
Loans and advances to customers	274,407,314	4.07
Liabilities:		
Demand deposits — NTD	133,181,364	0.48
Demand deposits — foreign currency	6,157,840	1.68
Time deposits — NTD	75,512,093	1.82
Time deposits — foreign currency	8,458,430	3.86
Negotiable certificates of deposit	3,157,776	1.63
Others	587,038	4.95
Subordinated financial debentures	18,000,000	3.82

2. Major foreign currency positions

Currency	June 30, 2007 Original currency	June 30, 2007 Equivalent NTD	Currency	June 30, 2006 Original currency	June 30, 2006 Equivalent NTD
USD	144,289	4,725,849	HKD	14,644	61,079
JPY	8,587,188	2,277,342	USD	800	25,917
AUD	22,694	631,563	THB	21,405	18,173
HKD	98,621	413,166	NZD	686	13,524
NZD	8,090	204,664	GBP	141	8,350

3. Profitability

Unit: %

Items		2007	2006
Return on assets (note 1)	Before income tax	(0.19)	(0.76)
	After income tax	(0.25)	(0.67)
Return on net equity (note 2)	Before income tax	(4.87)	(16.05)
	After income tax	(6.37)	(14.01)
Net profit ratio (note 3)		(16.93)	(43.83)

(Continued)

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

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

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

5) Capital adequacy

Capital adequacy ratios of the Bank were disclosed below:

Item		Period-end	June 30, 2007	December 31, 2006	June 30, 2006
Self-owned capital	Tier 1 Capital		22,715,555	13,697,601	16,159,941
	Tier 2 Capital		13,142,659	13,697,600	11,880,733
	Tier 3 Capital		-	-	-
	Capital		35,858,214	27,395,201	28,040,674
Risk-weighted assets	Credit risk	Standardized approach	321,919,363	270,337,648	268,614,539
		Internal-rating-based approach	-	-	-
		Secularizations	-	-	-
	Operational risk	Basic indicator approach	33,091,135	-	-
		Standardized approach/ alternative approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	34,408,725	31,769,476	17,104,900
		Internal model approach	-	-	-
	Risk-weighted assets		389,419,223	302,107,124	285,719,439
Capital adequacy ratio			9.21 %	9.07 %	9.81 %
Tier 1 capital / risk-weighted assets			5.83 %	4.53 %	5.66 %
Tier 2 capital / risk-weighted assets			3.37 %	4.53 %	3.05 %
Tier 3 capital / risk-weighted assets			- %	- %	- %
Common stock / total assets (note)			3.98 %	3.98 %	3.88 %

(Continued)

Capital adequacy ratio of the Bank and its subsidiaries were disclosed below:

Item		Period-end	June 30, 2007	December 31, 2006	June 30, 2006 (note 1)
Self-owned capital	Tier 1 Capital		22,942,421	13,922,644	-
	Tier 2 Capital		13,336,571	13,922,644	-
	Tier 3 Capital		-	-	-
	Capital		36,278,992	27,845,288	-
Risk-weighted assets	Credit risk	Standardized approach	322,195,559	270,055,635	-
		Internal-rating-based approach	-	-	-
		Secularizations	-	-	-
	Operational risk	Basic indicator approach	33,275,474	-	-
		Standardized approach/ alternative approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	34,408,725	31,900,476	-
		Internal model approach	-	-	-
	Risk-weighted assets		389,879,758	301,956,111	-
Capital adequacy ratio			9.31 %	9.22 %	- %
Tier 1 capital / risk-weighted assets			5.88 %	4.61 %	- %
Tier 2 capital / risk-weighted assets			3.42 %	4.61 %	- %
Tier 3 capital / risk-weighted assets			- %	- %	- %
Common stock / total assets (note 2)			3.98 %	3.86 %	- %

(Note 1) In accordance with the modified Regulations Governing the Capital Adequacy Ratio of Banks announced by SFC on November 9, 2004, the Bank shall report its consolidated capital adequacy ratio along with its own capital adequacy ratio to the competent authority within two months after each year-end. The aforementioned regulations have been modified and announced on January 4, 2007, by SCF and the frequency of the report has been modified as within two months after each half-year end.

(Note 2) Common stock includes reserve for capital increase.

6) Duration analysis of assets and liabilities

June 30, 2007

	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	$ 726,279,888	139,127,164	49,503,402	34,898,687	50,102,819	452,647,816
Capital used	790,690,967	157,432,975	69,673,112	88,349,981	124,462,545	350,772,354
Spread	(64,411,079)	(18,305,811)	(20,169,710)	(53,451,294)	(74,359,726)	101,875,462

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

June 30, 2007

(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	$ 10,820,788	5,378,352	1,292,198	696,782	570,772	2,882,684
Capital used	12,257,376	5,217,648	1,463,786	588,414	893,047	4,094,481
Spread	(1,436,588)	160,704	(171,588)	108,368	(322,275)	(1,211,797)

June 30, 2006

	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	$ 412,829,350	63,056,861	22,530,284	14,161,169	23,948,813	289,132,223
Capital used	480,602,769	73,275,344	49,938,946	72,009,128	108,383,306	176,996,045
Spread	(67,773,419)	(10,218,483)	(27,408,662)	(57,847,959)	(84,434,493)	112,136,178

June 30, 2006

(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	$ 435,769	127,754	121,934	118,526	6,922	60,633
Capital used	453,625	273,599	60,319	39,459	49,162	31,086
Spread	(17,856)	(145,845)	61,615	79,067	(42,240)	29,547

7) Ratio of interest-rate-sensitive assets to liabilities and interest-rate-sensitive spreads to net equity

June 30, 2007

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	$ 312,286,000	10,613,000	14,984,000	51,996,000	389,879,000
Interest-rate-sensitive liabilities	181,335,000	185,225,000	42,874,000	4,736,000	414,170,000
Interest-rate-sensitive spread	130,951,000	(174,612,000)	(27,890,000)	47,260,000	(24,291,000)
Interest-rate-sensitive equity, net					22,974,335
Ratio of interest-rate-sensitive assets to liabilities (%)					94.14
Ratio of interest-rate-sensitive spread to net equity (%)					(105.73)

June 30, 2007

(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	$ 4,481,673	1,276,221	651,375	627,263	7,036,532
Interest-rate-sensitive liabilities	4,289,547	1,364,183	523,452	697,627	6,874,809
Interest-rate-sensitive spread	192,126	(87,962)	127,923	(70,364)	161,723
Interest-rate-sensitive equity, net					198,985
Ratio of interest-rate-sensitive assets to liabilities (%)					102.35
Ratio of interest-rate-sensitive spread to net equity (%)					81.27

(Continued)

June 30, 2006

Item	Day 1 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year	Total
Interest-rate-sensitive assets	$ 311,825,000	7,759,000	1,384,000	45,194,000	366,162,000
Interest-rate-sensitive liabilities	144,733,000	176,849,000	43,887,000	8,712,000	374,181,000
Interest-rate-sensitive spread	167,092,000	(169,090,000)	(42,503,000)	36,482,000	(8,019,000)
Interest-rate-sensitive equity, net					17,340,026
Ratio of interest-rate-sensitive assets to liabilities (%)					97.86
Ratio of interest-rate-sensitive spread to net equity (%)					(46.25)

June 30, 2006

(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	$ 261,946	380,472	387,394	-	1,029,812
Interest-rate-sensitive liabilities	309,393	348,852	398,014	-	1,056,259
Interest-rate-sensitive spread	(47,447)	31,620	(10,620)	-	(26,447)
Interest-rate-sensitive equity, net					(17,852)
Ratio of interest-rate-sensitive assets to liabilities (%)					97.50
Ratio of interest-rate-sensitive spread to net equity (%)					148.15

(28) Other Disclosure Items

1) Related information on material transaction items:

1. 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.
2. 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.
3. 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.
4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: none.
5. Information regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
6. Information regarding selling non-performing loans: none.
7. Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: none.
8. Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: none.

(Continued)

2) Information on long-term equity investments:

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

Name of investee	Investee location	Investee's operation	Percentage of ownership	Book value of investments	Gain (loss) recognized during the period	Holdings: Number of shares	Holdings: Pro forma number of shares	Holdings: Total Shares	Holdings: Total Percentage	Remark
Hsinchu Futures Co., Ltd.	3 F., No 130, Si Wei Road, Hsin-Chu, Taiwan	Futures brokerage	88.57 %	255,356	(7,063)	30,112	-	30,112	88.57 %	-
Hsinchu Insurance Agent Co., Ltd.	No. 85, Chung-Zeng Road, Hsin-Chu, Taiwan	Life insurance agent	100.00 %	115,725	51,077	300	-	300	100 %	-
Chuchian Insurance Agent Co., Ltd.	No. 85, Chung-Zeng Road, Hsin-Chu, Taiwan	Property insurance agent	100.00 %	16,744	8,865	300	-	300	100 %	-
Paradigm Assets Management Co., Ltd.	19F., No. 123, Sec. 2, Chung-Hsiao East Road, Taipei, Taiwan	Securities investment trust	20.00 %	95,682	(65)	9,000	-	9,000	20 %	-

2. Lending to other parties: none.
3. Guarantees and endorsements for other parties: none.
4. Information regarding securities held as of June 30, 2007: none.
5. 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.
6. 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.
7. 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.
8. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: none.
9. Information regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
10. Information regarding trading in derivative financial instruments: none.
11. Information regarding selling non-performing loans: none.
12. Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: none.

(Continued)

13. Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: none.

(29) Segment Information: none.