

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

Financial Statements

December 31, 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 (formerly Hsinchu International Bank Co., Ltd.) as of December 31, 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 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 year ended December 31, 2006, were audited by other auditors, whose report thereon dated February 3, 2007, expressed a modified unqualified opinion with an explanatory paragraph on those statements. 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 Republic of China generally accepted auditing standards and the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants. Those standards 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 December 31, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and Republic of China generally accepted accounting principles.

Standard Chartered Bank (Taiwan) Limited has prepared its consolidated financial statements for the Bank and its subsidiaries as of and for the year ended December 31, 2007, on which we have expressed a standard unqualified audit opinion.

The consolidated financial statements for Standard Chartered Bank (Taiwan) Limited and its subsidiaries as of and for the year ended December 31, 2006, were audited by other auditors, whose audit report expressed a modified unqualified audit opinion with explanatory paragraphs.

KPMG
February 27, 2008

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

Standard Chartered Bank (Taiwan) Limited
Balance Sheets
December 31, 2007 and 2006
(Expressed in thousands of New Taiwan dollars, except for par value)

	2007	2006	Change %		2007	2006	Change %
Assets				Liabilities and Stockholders' Equity			
Cash and cash equivalents (note 4)	\$ 7,281,782	8,283,345	(12)	Deposits by Central bank and other banks	\$ 26,102,625	16,258,132	61
Balance at Central Bank and loans and advances to banks (note 5)	40,395,985	26,143,175	55	Financial liabilities held at fair value through profit or loss (note 6)	20,331,565	44,331	45,763
Financial assets held at fair value through profit or loss, net (notes 6, 13 and 23)	25,466,317	26,648,345	(4)	Bills and bonds sold under repurchase agreements (note 13)	1,145,992	17,778,465	(94)
Accounts receivable, net (notes 8, 9 and 21)	23,545,472	9,521,656	147	Notes and accounts payable (note 20)	10,409,638	4,673,910	123
Loans and advances to customers (note 9)	290,276,544	292,427,161	(1)	Deposits and remittances (note 14)	380,960,817	351,231,310	8
Available-for-sale financial assets, net (notes 7 and 13)	78,376,287	52,191,033	50	Financial debentures (note 15)	14,811,900	22,800,000	(35)
Interest in associates under equity method, net (notes 10 and 18)	455,318	682,864	(33)	Other liabilities (notes 19 and 26)	<u>2,987,346</u>	<u>1,469,280</u>	103
Other financial assets, net (notes 9, 10 and 18)	229,722	235,615	(3)	Total liabilities	<u>456,749,883</u>	<u>414,255,428</u>	10
Property and equipment, net (notes 11 and 18)	7,666,999	7,915,222	(3)	Stockholders' Equity (notes 3, 7, 15, 19, 21 and 22):			
Other assets (notes 12, 18, 19 and 21)	6,869,207	5,103,843	35	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 1,654,517 thousand shares on December 31, 2007 and 2006, respectively	<u>21,575,720</u>	<u>16,545,167</u>	30
				Capital surplus	<u>5,049,515</u>	<u>225,000</u>	2,144
				Retained earnings:			
				Legal reserve	-	3,228,441	-
				Special reserve	332	332	-
				Accumulated deficits	<u>(2,145,681)</u>	<u>(5,099,895)</u>	58
					<u>(2,145,349)</u>	<u>(1,871,122)</u>	(15)
				Other adjustments to stockholders' equity:			
				Unrealized revaluation increments	381,303	381,303	-
				Unrealized gain (loss) on available-for-sale financial assets	(888,436)	(383,517)	(132)
				Net loss from unrecognized pension cost	<u>(159,003)</u>	<u>-</u>	-
					<u>(666,136)</u>	<u>(2,214)</u>	(29,987)
				Total stockholders' equity	23,813,750	14,896,831	60
				Commitments and contingent liabilities (notes 12, 13, 23, 25 and 26)			
Total Assets	<u>\$ 480,563,633</u>	<u>429,152,259</u>	12	Total Liabilities and Stockholders' Equity	<u>\$ 480,563,633</u>	<u>429,152,259</u>	12

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Income

For the years ended December 31, 2007 and 2006

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

	2007	2006	Change %
Interest income (notes 6, 16 and 24)	\$ 16,068,937	13,452,040	19
Less: Interest expense	<u>7,054,827</u>	<u>5,837,188</u>	21
Net interest income	9,014,110	7,614,852	18
Other operating income:			
Fees and commission income, net (note 26)	5,309,815	3,161,855	68
Gain on financial instruments held at fair value through profit or loss (note 6)	136,585	271,328	(50)
Realized gain on available-for-sale financial assets (note 7)	170,552	231,896	(26)
Investment income from associates under equity method, net (note 10)	120,371	241,686	(50)
Foreign exchange gain (loss), net	607,958	(8,840)	6,977
Impairment loss on assets (notes 10, 11, 12 and 18)	(324,441)	(458,339)	29
Other non-interest income, net (notes 9 and 17)	<u>1,945,699</u>	<u>1,425,332</u>	37
Operating income	<u>16,980,649</u>	<u>12,479,770</u>	36
Impairment losses on loans and advances to customers and others (note 7)	<u>8,003,862</u>	<u>11,607,776</u>	(31)
Operating expenses:			
Staff costs (notes 19 and 20)	5,065,052	3,136,115	62
Depreciation and amortization expenses (note 11)	628,686	552,920	14
General and administrative expenses	<u>4,388,038</u>	<u>3,100,776</u>	42
	<u>10,081,776</u>	<u>6,789,811</u>	48
Loss from continuing operations before income tax	(1,104,989)	(5,917,817)	81
Income tax benefit (note 21)	<u>(606,632)</u>	<u>(699,333)</u>	13
Loss before cumulative effect of changes in accounting principle (note 3)	(498,357)	(5,218,484)	90
Cumulative effect of changes in accounting principle (note 3)	<u>-</u>	<u>66,607</u>	-
Net loss	<u><u>\$ (498,357)</u></u>	<u><u>(5,151,877)</u></u>	90
	Before tax	After tax	Before tax
			After tax
Basic earnings (deficits) per share (notes 3 and 22)			
Net loss before cumulative effect of changes in accounting principle	\$ <u><u>(0.58)</u></u>	(0.26)	<u><u>(3.64)</u></u>
Cumulative effect of changes in accounting principle		<u>-</u>	<u>0.04</u>
Net loss		<u><u>\$ (0.26)</u></u>	<u><u>(3.16)</u></u>

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

	Retained earnings					Other adjustments		Unrealized gain (loss) on available-for-sale financial assets	Net loss from unrecognized pension cost	Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated deficits	Revaluation increments on property and equipment	Cumulative translation adjustments			
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 22):										
Legal reserve	-	-	957,257	-	(957,257)	-	-	-	-	-
Special reserve	-	-	-	12	(12)	-	-	-	-	-
Stock dividends	472,361	-	-	-	(472,361)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,574,536)	-	-	-	-	(1,574,536)
Directors' and supervisors' remuneration	-	-	-	-	(113,716)	-	-	-	-	(113,716)
Cash bonus to employees	-	-	-	-	(91,998)	-	-	-	-	(91,998)
Stock bonus to employees	21,718	-	-	-	(21,718)	-	-	-	-	-
Conversion of convertible bonds into common stock (note 15)	305,730	216,106	-	-	-	-	-	-	-	521,836
Net loss for the year ended December 31, 2006	-	-	-	-	(5,151,877)	-	-	-	-	(5,151,877)
Changes in shareholders' equity of associates under equity method	-	(23)	-	-	686	-	12	-	-	675
Unrealized loss on available-for-sale financial assets (note 7)	-	-	-	-	-	-	-	(383,517)	-	(383,517)
Balance as of December 31, 2006	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 22)	100,000	118,556	-	-	-	-	-	-	-	218,556
Capital increase for cash (note 22)	4,930,553	4,930,553	-	-	-	-	-	-	-	9,861,106
Recovery of accumulated deficits by offsetting with capital surplus and legal reserve (note 22)	-	(224,130)	(3,228,441)	-	3,452,571	-	-	-	-	-
Special reserve recognized as income	-	(464)	-	-	-	-	-	-	-	(464)
Net loss for the year ended December 31, 2007	-	-	-	-	(498,357)	-	-	-	-	(498,357)
Unrealized loss on available-for-sale financial assets (note 7)	-	-	-	-	-	-	-	(504,919)	-	(504,919)
Net loss from unrecognized pension costs (note 19)	-	-	-	-	-	-	-	-	(159,003)	(159,003)
Balance as of December 31, 2007	\$ 21,575,720	5,049,515	-	332	(2,145,681)	381,303	-	(888,436)	(159,003)	23,813,750

See accompanying notes to financial statements.

Standard Chartered Bank (Taiwan) Limited

Statements of Cash Flows

For the years ended December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

	2007	2006
Cash flows from operating activities:		
Net loss	\$ (498,357)	(5,151,877)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expenses	8,003,862	11,607,776
Depreciation	628,686	550,868
Amortization	-	2,052
Effect of changes in foreign exchange rate	-	(136,184)
Realized gain on available-for-sale financial assets	(170,552)	-
Investment income from associates under equity method	(120,371)	(268,491)
Cash dividends from associates under equity method	252,170	313,907
Loss on disposal of financial assets carried at cost	1,463	5,532
Fixed assets recognized as expenses	108,256	-
Decrease in unrealized gain from related-party transactions	(89)	-
Gain on redemption of financial debentures	-	(18,177)
Loss on disposal of property and equipment, net	(18,190)	4,433
Loss on sales of foreclosed assets	-	51,686
Impairment losses	324,441	458,339
Special reserve recognized as income	(464)	-
Decrease (increase) in balance at Central Bank and loans and advances to banks	29,179,987	(11,886,815)
Decrease (increase) in financial assets held at fair value through profit or loss	21,174,822	(17,456,622)
Decrease in accounts receivable	8,160,011	2,935,634
Decrease (increase) in loans and advances to customers	17,610,636	(34,752,077)
Decrease (increase) in other financial assets, net	(184)	72,374
Increase in deferred income tax assets	(787,061)	(833,582)
Decrease in deposits by Central Bank and other banks	(23,543,543)	(1,600,259)
Increase (decrease) in financial liabilities at fair value through profit or loss	787,865	(953)
Increase (decrease) in deposits and remittances	(43,101,713)	31,908,025
Increase (decrease) in notes and accounts payable	(77,436)	87,542
Decrease of reserve for securities trading losses	-	(48,030)
Increase of reserve for default losses	13,150	6,469
Net cash provided by (used in) operating activities	<u>17,927,389</u>	<u>(24,148,430)</u>
Cash flows from investing activities:		
Decrease in bills and bonds purchased under reverse repurchase agreements	687,487	11,654,485
Decrease in available-for-sale financial assets	-	9,461,304
Decrease in associates under equity method	-	588,452
Acquisition of available-for-sale financial assets	(131,953,633)	-
Proceeds from disposal of available-for-sale financial assets	125,839,996	-
Capital return from financial assets carried at cost	5,428	-
Acquisition of property and equipment and foreclosed assets	(756,071)	(516,460)
Proceeds from disposal of property and equipment and foreclosed assets	221,836	111,237
Decrease in other assets	432,421	125,450
Net cash provided by business assignment	1,006,506	-
Net cash provided by (used in) investing activities	<u>(4,516,030)</u>	<u>21,424,468</u>
Cash flows from financing activities:		
Increase (decrease) in bills and bonds sold under repurchase agreements	(17,111,556)	1,672,387
Increase in loan from Central Bank and other banks	-	974,070
Increase (decrease) in financial debentures	(7,988,100)	1,862,891
Increase (decrease) in other liabilities	825,628	(309,556)
Cash dividends	-	(1,574,536)
Directors' and supervisors' remuneration and employees' bonus	-	(205,714)
Issuance of common stock for cash	9,861,106	-
Net cash provided by (used in) financial activities	<u>(14,412,922)</u>	<u>2,419,542</u>
Net decrease in cash and cash equivalents	(1,001,563)	(304,420)
Cash and cash equivalents at beginning of period	8,283,345	8,587,765
Cash and cash equivalents at end of period	<u>\$ 7,281,782</u>	<u>8,283,345</u>
Supplemental disclosure of cash flow information:		
Cash payments of interest	<u>\$ 7,228,255</u>	<u>8,454,161</u>
Cash payments of income tax	<u>\$ 249,237</u>	<u>134,249</u>
Investing activities not affecting cash flows:		
Loan and advances to customers recognized as available-for-sale financial assets	<u>\$ -</u>	<u>2,911,551</u>
Unrealized gain (loss) on available-for-sale financial assets	<u>\$ (504,919)</u>	<u>(383,517)</u>
Net loss from unrecognized pension cost	<u>\$ 159,003</u>	<u>-</u>
Increase in deferred pension cost	<u>\$ 281,867</u>	<u>-</u>

See accompanying notes to financial statements.

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

December 31, 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 December 31, 2007 and 2006, the number of the Bank's employees was 4,554 and 3,360, 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 English translation of the Chinese version is used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The 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.

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

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.

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 as well as entrusted funds and their corresponding interests managed by the Bank have been eliminated for preparation of the financial statements.

The Bank, for internal management purposes, should maintain separate accounts and prepare separate sets of financial statements for the entrusted funds and their corresponding interests 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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STANDARD CHARTERED BANK (TAIWAN) LIMITED**Notes to Financial Statements**

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

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) 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.

8) Derivative financial instruments and hedge accounting

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.

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

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.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. 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.

9) Repurchase and reverse repurchase agreements

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

10) Loans and allowance for doubtful accounts

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

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. In accordance with the Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, an allowance for doubtful accounts is determined by evaluating the collectibility of loans and age of receivables (including nonperforming loans, overdue receivables, and interest receivable) and of advance accounts, and any non-performing loans or non-accrual loans, after subtracting the estimated recoverable portion, that have one of the following characteristics shall be written off:

1. The loan cannot be recovered in full or in part because the debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.
2. The collateral and property of the primary/subordinate debtors have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the bank might collect from the debtors where there is no financial benefit in execution.
3. The primary/subordinate debtor's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the bank's taking possession of such collateral.

(Continued)

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

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

The write-off of non-performing loans and non-accrual loans shall be authorized by a resolution passed by the board of directors, and the supervisors shall be notified. However, when requested by the Competent Authority or any financial examination agency (organization), loans must be immediately written off, a report must be made to the subsequent board meeting, and the supervisors must be notified for acknowledgement. Collections after the write-off are recorded under other non-interest income, net.

Principal or interest overdue over three months is categorized as overdue accounts. If principal or interest of any outstanding loan is overdue for 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.

11) 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)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

12) 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".

13) 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

14) 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.

15) 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.

16) 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.

(Continued)

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

17) 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.

18) 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.

19) 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.

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.

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.

20) 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. 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.

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

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. 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.

21) 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, an additional monthly payment of 30% of average monthly salary at the time of retirement was paid until year 2000.

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 Bank of Taiwan (former Central Trust of China) since July 1998.

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 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 on a straight line basis.

Minimum pension liability usually occurs due to the existence of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation. If the amount of minimum pension liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation, then the difference would be charged to the deferred pension cost account; otherwise, the difference shall be charged to the account net loss from unrecognized pension cost. Deferred pension cost is classified other asset; net loss from unrecognized pension cost is classified as a reduction of stockholders' equity. The amount deposited under the defined contribution scheme is charged to current expenses.

22) Share-based compensation

The Standard Chartered Group operates equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense.

(Continued)

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

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, for example, profitability and growth target. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Bank revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement.

23) Revenue recognition

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

24) 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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

25) 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.

(3) Changes in Accounting Principle

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 year ended December 31, 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 \$110,348 and \$0.07, respectively.

(4) Cash and Cash Equivalents

As of December 31, 2007 and 2006, cash and cash equivalents were as follows:

	2007	2006
Cash	\$ 4,570,604	4,522,510
Cash in transit	6,066	-
Negotiable instruments for clearing	37,165	171,288
Deposits with other banks	2,525,943	3,589,547
Deposits with affiliate companies	142,004	-
	<u>\$ 7,281,782</u>	<u>8,283,345</u>

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

As of December 31, 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	\$ 3,951,987	4,317,739
Reserve for deposits—demand account	11,011,807	9,653,955
Reserve for deposits—foreign currency	811,065	26,077
Interbanks settlement accounts	597,863	394,080
	<u>16,372,722</u>	<u>14,391,851</u>
Loans and advances to other banks	14,763,753	11,751,324
Loans and advances to affiliate companies	9,259,510	-
	<u>\$ 40,395,985</u>	<u>26,143,175</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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.

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

As of December 31, 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	\$ 5,115,776	26,344,976
Derivatives	<u>18,679,751</u>	<u>303,369</u>
	23,795,527	26,648,345
Financial assets designated at fair value through profit or loss:		
Structured notes	<u>1,670,790</u>	<u>-</u>
	<u>\$ 25,466,317</u>	<u>26,648,345</u>
	2007	2006
Trading financial liabilities		
Derivatives	<u>\$ 20,331,565</u>	<u>44,331</u>
	<u>\$ 20,331,565</u>	<u>44,331</u>

For the years ended December 31, 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 and liabilities:		
Debt instruments	\$ 104,579	146,393
Equity instruments	-	296
Beneficiary certificates	-	38,946
Derivatives	<u>88,941</u>	<u>80,542</u>
	<u>193,520</u>	<u>266,177</u>
Net loss on valuation and disposal of financial assets designated at fair value through profit or loss:		
Structured notes	<u>(56,935)</u>	<u>-</u>
Dividend income	<u>-</u>	<u>5,151</u>
Interest income	<u>57,535</u>	<u>17,163</u>
Total	<u>\$ 194,120</u>	<u>288,491</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(7) Available-for-sale Financial Assets

As of December 31, 2007 and 2006, available-for-sale financial assets were as follows:

	2007	2006
Debt instruments:		
Treasury bills	\$ 1,491,345	-
Negotiable certificates of deposit	42,682,456	11,200,482
Government bonds	11,122,005	16,412,740
Corporate bonds	8,245,295	11,625,417
Financial debentures	9,368,194	7,250,528
Commercial paper	<u>819,462</u>	<u>-</u>
	<u>73,728,757</u>	<u>46,489,167</u>
Beneficiary certificates	<u>-</u>	<u>15,043</u>
Beneficiary securities	<u>4,647,530</u>	<u>5,444,988</u>
Equity instruments:		
Stock	<u>-</u>	<u>241,835</u>
Total	<u>\$ 78,376,287</u>	<u>52,191,033</u>
Hedged assets included in the above-stated balance	<u>\$ 8,415,186</u>	<u>-</u>

For the years ended December 31, 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	(334,367)	(151,621)
Realized gain (loss) on disposal in the period	<u>170,552</u>	<u>231,896</u>
Ending balance	<u>\$ (888,436)</u>	<u>(383,517)</u>

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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

At the first and second issuance of the beneficiary certificates, the Bank held the subordinated Seller Certificates of \$1,800,791 and \$2,911,551, respectively, which were recorded as available-for-sale financial assets with the right to interest in excess of the fixed amount paid to investors. If the debtors fail to repay the entrusted loans, investors and Deutsche Bank AG, Taipei Branch have no right of recourse to the Bank's other assets. The Bank's right to the repayment of the entrusted loans as subordinated Seller Certificates is 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) As of December 31, 2007 and 2006, key assumptions used in measuring retained interests

	2007	
	First	Second
Prepayment rate (annual rate) – assumption (1)	30.00 %	20.00 %
Weighted-average life	2.17 years	3.31 years
Expected credit losses rate (annual rate) – assumption (2)	1.50 %	1.50 %
Discounted rate for residual cash flows	2.60 %	2.60 %
	2006	
	First	Second
Prepayment rate (annual rate) – assumption (1)	30.00 %	20.00 %
Weighted-average life	2.92 years	4.40 years
Expected credit losses rate (annual rate) – assumption (2)	1.50 %	1.50 %
Discounted rate for residual cash flows	2.60 %	2.60 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2) Sensitivity analysis

As of December 31, 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	
		First	Second
Carrying amount of retained interest	\$	1,775,302	2,872,228
Assumption (1) – impact on fair value of 10% adverse change		(3,354)	(11,772)
Assumption (1) – impact on fair value of 20% adverse change		(6,884)	(22,900)
Assumption (2) – Impact on fair value of 10% adverse change		(2,612)	(3,425)
Assumption (2) – Impact on fair value of 20% adverse change		(5,224)	(6,850)
		2006	
		First	Second
Carrying amount of retained interest	\$	1,835,535	2,931,129
Assumption (1) – impact on fair value of 10% adverse change		(8,671)	(15,425)
Assumption (1) – impact on fair value of 20% adverse change		(15,994)	(30,976)
Assumption (2) – impact on fair value of 10% adverse change		(6,568)	(9,543)
Assumption (2) – impact on fair value of 20% adverse change		(13,136)	(19,087)

- 3) As of December 31, 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.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

4) Cash flows

The cash flows received from or paid to securitization trusts for the years ended December 31, 2007 and 2006, are summarized as follows:

		2007	
		First	Second
Other cash flows received on retained interests	\$	90,322	67,754
Servicing fee received		5,000	5,000
Proceeds from new securitization		-	-
Cash received for prepayment for service		1,235	2,111
Prepayment for service		1,155	2,332
		2006	
		First	Second
Other cash flows received on retained interests	\$	55,258	-
Servicing fee received		3,914	1,342
Proceeds from new securitization		-	13,234,322
Cash received for prepayment for service		287	-
Prepayment for service		300	-

(8) Accounts Receivable

As of December 31, 2007 and 2006, details of accounts receivable were as follows:

		2007	2006
Accounts receivable	\$	6,463,081	828,464
Acceptance receivable		413,765	433,560
Tax refund receivable		68,149	382,728
Interest receivable		1,673,500	1,451,197
Other receivable		338,758	2,943,882
Subtotal		8,957,253	6,039,831
Less: allowance for bad and doubtful accounts		-	326,798
		8,957,253	5,713,033
Credit card receivable, net of allowance for bad and doubtful accounts of \$85,485 and \$38,000 for 2007 and 2006, respectively		14,588,219	3,808,623
		<u>\$ 23,545,472</u>	<u>9,521,656</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(9) Loans and Advances to Customers

As of December 31, 2007 and 2006, details of loans and advances to customers were as follows:

	2007	2006
Remittance and discounts for exports	\$ 10,694,953	186,011
Short-term loans and overdrafts	24,601,293	23,716,626
Short-term secured loans and overdrafts	12,392,952	20,278,005
Medium-term loans	80,464,108	72,007,712
Medium-term secured loans	11,748,679	31,608,375
Long-term loans	3,535,251	10,136,212
Long-term secured loans	143,808,993	132,749,862
Non-performing loans	<u>5,197,082</u>	<u>4,839,651</u>
Subtotal	292,443,311	295,522,454
Less: allowance for bad and doubtful accounts	<u>2,166,767</u>	<u>3,095,293</u>
Total	<u>\$ 290,276,544</u>	<u>292,427,161</u>
Hedged assets included in the above-stated balance	<u>\$ 1,928,209</u>	<u>-</u>

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.

For the years ended December 31, 2007 and 2006, the movements of allowance for bad and doubtful accounts were as follows:

	Specific provision	2007 General provision	Total
Beginning balance	\$ 2,603,204	869,477	3,472,681
Add: provision for doubtful accounts	4,715,192	3,288,670	8,003,862
provision from assignment of business from Standard Chartered Bank, Taipei Branch	1,011	868,542	869,553
Less: write-off	<u>5,678,226</u>	<u>4,415,618</u>	<u>10,093,844</u>
Ending balance	<u>\$ 1,641,181</u>	<u>611,071</u>	<u>2,252,252</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

	Specific provision	2006 General provision	Total
Beginning balance	\$ 2,384,399	928,677	3,313,076
Add: provision for doubtful accounts	10,359,700	1,248,076	11,607,776
Less: write-off	<u>10,140,895</u>	<u>1,307,276</u>	<u>11,448,171</u>
Ending balance	<u>\$ 2,603,204</u>	<u>869,477</u>	<u>3,472,681</u>

As of December 31, 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)	\$ 2,166,767	3,095,293
Accounts receivable	85,485	364,798
Other financial assets – overdue receivables	<u>-</u>	<u>12,590</u>
Total	<u>\$ 2,252,252</u>	<u>3,472,681</u>

The Bank collected \$1,469,375 and \$1,042,746 from written-off loans during the years ended December 31, 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006, the amounts of allowance for bad and doubtful accounts generated from 3% of operating revenue were \$495,000 and \$540,000, respectively.

As of December 31, 2007 and 2006, the amounts of outstanding loans with interest charges suspended amounted to \$11,431,825 and \$5,503,033, respectively. The amounts of accrued interest derived from the aforementioned loans were \$612,285 and \$410,594, respectively.

As of December 31, 2007 and 2006, loans and advances to customers classified by the geographical region were as follows:

	2007	2006
Domestic	\$ 287,551,107	290,041,690
Overseas	<u>4,892,204</u>	<u>5,480,764</u>
Total	<u>\$ 292,443,311</u>	<u>295,522,454</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2007 and 2006, loans and advances to customers classified by industry were as follows:

	2007	2006
Manufacturing	\$ 45,399,062	55,032,224
Commercial	23,857,032	17,354,764
Construction	2,968,368	12,496,894
Individual	196,882,460	196,477,293
Other	<u>23,336,389</u>	<u>14,161,279</u>
Total	<u>\$ 292,443,311</u>	<u>295,522,454</u>

As of December 31, 2007 and 2006, information regarding asset quality of loans and advances to customers was as follows:

(expressed in thousands of New Taiwan dollars, %)

Product		Period		2007		
		Overdue loan amount	Loan Balance (Note 3)	Overdue ratio	Allowance for bad debts (Note 1)	Cover rate
Corporate Banking	Secured	2,091,585	7,150,360	29.25 %	547,308	26.17 %
	Unsecured	-	68,724,990	-	-	-
Consumer Banking	Mortgage	3,418,523	144,760,078	2.36 %	895,020	26.18 %
	Cash card	1,080	20,237	5.34 %	283	26.20 %
	Credit loan	409,234	45,184,193	0.91 %	107,143	26.18 %
	Others					
	Secured	2,355,530	26,572,203	8.86 %	617,013	26.19 %
	Unsecured	-	31,250	-	-	-
Total		8,275,952	292,443,311	2.83 %	2,166,767	
		Overdue	Account receivables	Overdue ratio	Allowance for bad debts	Cover rate
Credit card		1,094,795	14,673,704	7.46 %	85,485	7.81 %
Without recourse factoring		-	439,878	-	-	-

Product		Period		2006		
		Overdue loan amount	Loan Balance	Overdue ratio	Allowance for bad debts (Note 1)	Cover rate
Corporate Banking	Secured	3,089,064	50,530,561	6.11 %	1,487,173	48.14 %
	Unsecured	425,512	57,095,282	0.75 %	204,855	48.14 %
Consumer Banking (Note 2)	Mortgage	1,426,149	125,121,066	1.14 %	686,593	48.14 %
	Cash card	1,096	89,214	1.23 %	528	48.18 %
	Credit loan	1,008,511	46,948,951	2.15 %	485,529	48.14 %
	Others					
	Secured	394,536	13,163,055	3.00 %	189,942	48.14 %
	Unsecured	84,486	2,574,325	3.28 %	40,674	48.14 %
Total		6,429,354	295,522,454	2.18 %	3,095,294	
		Overdue	Account receivables	Overdue ratio	Allowance for bad debts	Cover rate
Credit card		39,447	3,846,623	1.03 %	38,000	96.33 %
Without recourse factoring		-	4,027,955	-	-	-

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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.

Note 3: Loan balance as of December 31, 2007 was disclosed by the Standard Chartered Group's business categories.

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

	December 31, 2007			December 31, 2006		
	Percentage of ownership	Investment cost	Amount	Percentage of ownership	Investment cost	Amount
Equity method:						
Hsinchu Futures Co., Ltd.	88.57	\$ 442,830	261,193	88.57	442,830	262,419
Standard Chartered Life Insurance Agent Co., Ltd. (former Hsinchu Insurance Agent, Ltd.)	100.00	21	166,619	100.00	21	296,464
Standard Chartered Taiwan Insurance Agent Co., Ltd. (former Chuchian Insurance Agent Co., Ltd.)	100.00	368	27,506	100.00	368	28,234
Paradigm Assets Management Co., Ltd.	20.00	98,400	95,747	20.00	98,400	95,747
		<u>541,619</u>	<u>551,065</u>		<u>541,619</u>	<u>682,864</u>
Less: accumulated impairment – Paradigm Assets Management Co.,		-	95,747		-	-
		<u>\$ 541,619</u>	<u>455,318</u>		<u>541,619</u>	<u>682,864</u>
Financial assets carried at costs:						
Fubon Securities Finance Co., Ltd.	0.99	\$ 38,065	38,065	0.99	38,065	38,065
Taiwan Small and Medium Enterprises	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 Bio Venture Management, Inc.	5.00	20,250	20,250	5.00	20,250	20,250

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

	December 31, 2007			December 31, 2006		
	Percentage of ownership	Investment cost	Amount	Percentage of ownership	Investment cost	Amount
Liyu Venture Investment, Inc.	4.76	\$ 15,014	15,014	5.00	21,905	21,905
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	-	-	-
Taiwan Depository and Clearing Corporation	0.17	9,277	9,277	0.17	9,277	9,277
Wan Chi Co., Ltd.	3.35	<u>2,468</u>	<u>2,468</u>	3.35	<u>2,468</u>	<u>2,468</u>
Subtotal		415,138	415,138		421,215	421,215
Less: accumulated impairment – Windance Co., Ltd.	-	-	188,500	-	-	188,500
		<u>\$ 415,138</u>	<u>226,638</u>		<u>421,215</u>	<u>232,715</u>

For the years ended December 31, 2007 and 2006, investment income from associates under the equity method amounted to \$120,371 and \$241,686, respectively, calculated based on audited financial statements.

For the years ended December 31, 2007 and 2006, movements for accumulated impairment of interest in associates under the equity method and financial assets carried at cost were as stated in note 18.

(11) Property and Equipment

As of December 31, 2007 and 2006, details of property and equipment were as follows:

	2007	2006
Cost:		
Land	\$ 3,025,053	2,999,894
Revaluation increments on land	505,866	505,866
Buildings	3,296,267	3,272,395
Revaluation increments on buildings	10,407	10,407
Transportation equipment	3,684	474
Leasehold improvements	212,022	-
Other equipment	<u>4,650,627</u>	<u>4,118,775</u>
Subtotal	11,703,926	10,907,811
Less: accumulated depreciation	4,083,045	3,213,146
Less: accumulated impairments	<u>464,495</u>	<u>-</u>
	7,156,386	7,694,665
Construction in progress and prepayment for equipment	<u>510,613</u>	<u>220,557</u>
	<u>\$ 7,666,999</u>	<u>7,915,222</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For the years ended December 31, 2007 and 2006, movements of accumulated depreciation were as follows:

	2007	2006
Beginning balance	\$ 3,213,146	2,965,154
Add: depreciation	582,305	498,546
accumulated depreciation provided by business assignment	451,809	-
reclassified	12,618	-
Less: disposal	<u>176,833</u>	<u>250,554</u>
Ending balance	<u>\$ 4,083,045</u>	<u>3,213,146</u>

(12) Other Assets

As of December 31, 2007 and 2006, details of other assets were as follows:

	2007	2006
Deferred income tax assets, net	\$ 3,229,527	1,426,950
Idle assets, net of accumulated impairment of \$18,446 and \$17,166 for 2007 and 2006, respectively	113,694	97,229
Property held for rent, net of accumulated impairment of \$0 and \$2,513 for 2007 and 2006, respectively	1,722,522	1,845,213
Foreclosed assets, net of accumulative impairment of \$639,827 and \$1,007,635 for 2007 and 2006, respectively	577,368	540,971
Refundable deposits	660,385	939,213
Deferred pension costs	281,867	165,543
Prepaid expenses	147,068	27,966
Others	<u>136,776</u>	<u>60,758</u>
	<u>\$ 6,869,207</u>	<u>5,103,843</u>

The Bank leased out its office buildings under operating leases with lease terms ranging from one to five years. As of December 31, 2007, future lease payments were as follows:

Period	Amount
2008	\$ 66,494
2009	60,125
2010	59,769
2011	24,927
2012 and thereafter	<u>26,197</u>
	<u>\$ 237,512</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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.

(13) Bills and Bonds Sold under Repurchase Agreements

As of December 31, 2007 and 2006, the fair value of underlying assets of bills and bonds sold under repurchase agreements were as follows;

	2007	2006
Financial assets held at fair value through profit or loss	\$ 1,358,160	2,263,488
Available-for-sale financial assets	<u>134,476</u>	<u>15,636,347</u>
	<u><u>\$ 1,492,636</u></u>	<u><u>17,899,835</u></u>

As of December 31, 2007 and 2006, settlement dates for bills and bonds sold under repurchase agreements were from January 2 to July 1, 2008, and from January 2 to May 14, 2007, respectively; interest rates of the aforementioned repurchase agreements ranged from 1.93% to 2.07% and from 1.30% to 1.66%, respectively.

(14) Deposits and Remittances

As of December 31, 2007 and 2006, deposits and remittances were as follows:

	2007	2006
Checking deposits	\$ 3,790,414	4,112,992
Demand deposits	92,358,384	38,520,606
Time deposits	65,721,133	62,954,981
Savings deposits	107,310,252	109,402,258
Time savings deposits	111,500,841	136,118,762
Remittances	<u>279,793</u>	<u>121,711</u>
Total	<u><u>\$ 380,960,817</u></u>	<u><u>351,231,310</u></u>
Hedged liabilities included in the above-stated balance	<u><u>\$ 300,000</u></u>	<u><u>-</u></u>

As of December 31, 2007 and 2006, the maturity date for the abovementioned time deposits and time savings deposits was within three years.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(15) Financial Debentures

- 1) As of December 31, 2007 and 2006, details of subordinated debentures issued by the Bank 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	\$ 11,900	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
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
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
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
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	4,800,000
		\$ 14,811,900	22,800,000

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 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 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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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 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

In order to improve the Bank's financial structure, the board of directors authorized the issuance of the Global Convertible Bonds on March 19, 2004, in the total amount of US\$110,000 thousand. 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 of \$2,911,379 and the carrying amount was \$18,177 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 \$216,106 of paid-in capital in excess of par.

(16) Interest Income

For the years ended December 31, 2007 and 2006, details of interest income were as follows:

	2007	2006
Interbank transactions	\$ 1,547,330	489,476
Loans and advances to customers	12,310,189	11,648,154
Credit cards	699,903	385,390
Financial assets at fair value through profit or loss	57,535	17,163
Available-for-sale financial assets	<u>1,453,980</u>	<u>911,857</u>
Total	<u><u>\$ 16,068,937</u></u>	<u><u>13,452,040</u></u>

(17) Other Non-interest Income (Loss)

For the years ended December 31, 2007 and 2006, details of non-interest income (loss) were as follows:

	2007	2006
Securities brokerage commissions	\$ 315,347	224,356
Rentals	83,935	90,525
Gain on disposal of assets and foreclosed assets	18,190	(56,119)
Collection of written-off accounts receivable	1,469,375	1,057,559
Dividend income of investments carried at cost	13,812	12,681
Others	<u>45,040</u>	<u>96,330</u>
Total	<u><u>\$ 1,945,699</u></u>	<u><u>1,425,332</u></u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(18) Asset Impairment

For the years ended December 31, 2007 and 2006, recognized impairment losses and the movements of accumulated impairment losses for assets held by the Bank were as follows:

	Opening balance	2007 Impairment loss (reversal)	Disposal	Ending balance
Interest in associates under equity method	\$ -	95,747	-	95,747
Financial assets carried at cost	188,500	-	-	188,500
Property and equipment	-	464,495	-	464,495
Idle assets	17,166	1,280	-	18,446
Property held for rent	2,513	(2,513)	-	-
Foreclosed assets	<u>1,007,635</u>	<u>(234,568)</u>	<u>(133,240)</u>	<u>639,827</u>
	<u>\$ 1,215,814</u>	<u>324,441</u>	<u>(133,240)</u>	<u>1,407,015</u>
		2006 Impairment loss (reversal)	Ending balance	
Financial assets carried at cost	\$ -	188,500	188,500	
Idle assets	8,317	8,849	17,166	
Property held for rent	2,513	-	2,513	
Foreclosed assets	<u>746,645</u>	<u>260,990</u>	<u>1,007,635</u>	
	<u>\$ 757,475</u>	<u>458,339</u>	<u>1,215,814</u>	

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(19) Pension

The Bank made deposits in a retirement fund account for the engaged employees in the the Bank of Taiwan (former Central Trust of China) in 2007 and 2006. Furthermore, the Bank deposited an amount equal to 6% of the monthly gross salary payment in the Bureau of Labor Insurance in 2007 and 2006. The measurement dates of the actuarial reports were December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, the reconciliation of the funded status and accrued pension liabilities was as follows:

	2007	2006
Benefit obligation:		
Vested benefit obligation	\$ (287,203)	(132,042)
Non-vested benefit obligation	<u>(1,925,359)</u>	<u>(1,152,905)</u>
Accumulated benefit obligation	(2,212,562)	(1,284,947)
Additional benefits based on future salaries	<u>(644,656)</u>	<u>(774,224)</u>
Projected benefit obligation	(2,857,218)	(2,059,171)
Fair value of plan assets	<u>1,754,957</u>	<u>1,447,836</u>
Funded status	(1,102,261)	(611,335)
Unrecognized net transition obligation	249,254	287,264
Unrecognized prior service cost	32,613	-
Unrecognized loss	758,746	489,614
Additional minimum pension liabilities	<u>(440,870)</u>	<u>-</u>
Deferred pension cost (accrued pension liabilities)	<u>\$ (502,518)</u>	<u>165,543</u>
Vested benefit	<u>\$ 342,032</u>	<u>159,292</u>

For the years ended December 31, 2007 and 2006, the components of net pension cost were as follows:

	2007	2006
Service cost	\$ 117,762	81,552
Interest cost	71,926	71,404
Actual return on plan assets	(41,380)	(34,118)
Amortization	<u>87,140</u>	<u>59,226</u>
Net pension cost	<u>\$ 235,448</u>	<u>178,064</u>

Actuarial assumptions for the years 2007 and 2006 were as follows:

	2007	2006
Discount rate	2.50 %	3.50 %
Rate of increase in future compensation	3.50 %	3.25 %
Rate of projected return on plan assets	2.50 %	2.50 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For the years ended December 31, 2007 and 2006, the net pension costs for the defined contribution pension plan were \$25,880 and \$194,011, respectively. For the years ended December 31, 2007 and 2006, net pension costs for employees assigned from foreign affiliate companies were \$11,610 and \$0, respectively.

For the years ended December 31, 2007 and 2006, payments for retirement and severance were \$11,993 and \$126,883, respectively.

(20) Share-Based Payments

Standard Chartered PLC Group (the SC PLC Group) operates a number of share-based payment schemes for its directors and employees. As of December 31, 2007, share-based payment schemes adopted by the Bank were as follows:

1) International sharesave schemes (ISS)

Under these sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in SC PLC. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the all employee sharesave schemes.

The option movement of ISS was as follows:

	2007
Outstanding at January 1, 2007	-
Options provided by business assignment from Standard Chartered Bank, Taipei Branch	152,856
Add: granted	470,404
Less: exercised	-
lapsed	<u>7,779</u>
Outstanding at December 31, 2007	<u><u>615,481</u></u>

For the year ended December 31, 2007, cost charged to current profits or losses for ISS was \$12,469, recorded under operating expenses.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Options are valued using a Binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2007	
	October 1	September 26
Grant date		
Share price at grant date	£ 15.88	£ 16.18
Exercise price	£ 12.43	£ 12.43
Vesting period (years)	3/5	3/5
Expected volatility (%)	20.7/24.2	20.7/24.2
Expected option life (years)	3.33/5.33	3.33/5.33
Risk free rate (%)	4.90/5.00	5.10/5.00
Expected dividends (yield) (%)	2.9/3.3	2.9/3.3
Fair value (£)	4.4/4.9	4.7/5.1

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividends yield and fair values, this first relates to a three year vesting period and the second to a five year vesting period.

2) Restricted share scheme (RSS)

The SC PLC Group operates a discretionary Restricted Share Scheme ("RSS") for high-performing and high-potential staff at any level of the organization whom the SC PLC Group wish to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the RSS is not applicable to executive directors, as it has no performance conditions attached to it. Fifty percent of the award vests two years after the date of grant and the balance after three years. The shares can be exercised within seven years of the grant date. The value of shares awarded in any year to any individual may not exceed two times their base salary.

The option movement of RSS was as follows:

	2007
Outstanding at January 1, 2007	-
Options provided by business assignment from Standard Chartered Bank, Taipei Branch	24,522
Add: granted	29,670
Less: exercised	-
lapsed	-
Outstanding at December 31, 2007	<u><u>54,192</u></u>

For the year ended December 31, 2007, cost charged to current profits or losses for RSS was \$6,021, recorded under operating expenses.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

2007

Grant date	September 17	March 12
Share price at grant date	£ 14.69	£ 14.51
Vesting period (years)	2/3	2/3
Expected dividends (yield) (%)	2.9	2.8
Fair value (£)	13.49	13.36

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

3) Executive share option plan (ESOS)

The scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. An EPS performance criterion must be met before options can be exercised.

Executive share options to purchase ordinary shares in SC PLC are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant, and options can only be exercised if a performance condition is satisfied. The option movement of ESOS was as follows:

2007

Outstanding at January 1, 2007	-
Options provided by business assignment from Standard Chartered Bank, Taipei Branch	8,834
Add: granted	-
Less: exercised	3,577
lapsed	-
Outstanding at December 31, 2007	<u><u>5,257</u></u>

For the year ended December 31, 2007, cost charged to current profit or losses for ESOS was \$115, recorded under operating expenses.

Options are valued using a binomial option-pricing model. No share awards were granted during 2007.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

4) Performance share plan (PSP)

The Performance Share Plan is designed to be an intrinsic part of total remuneration for the SC PLC Group's executive directors and for a small number of the SC PLC Group's most senior executives. It is an internationally competitive long-term incentive plan that focuses executives on meeting and exceeding the long-term performance targets of the SC PLC Group. Awards of nil price options to acquire shares are granted to the executives and will normally be exercised between three and ten years after the date of grant if the individual is still employed by the SC PLC Group. There is provision for earlier exercise in certain limited circumstances.

The option movement of PSP was as follows:

	2007
Outstanding at January 1, 2007	-
Options provided by business assignment from Standard Chartered Bank, Taipei Branch	36,065
Add: granted	-
Less: exercised	-
lapsed	-
Outstanding at December 31, 2007	<u><u>36,065</u></u>

For the year ended December 31, 2007, cost charged to current profits or losses for PSP was \$4,448, recorded under operating expenses.

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

	2007	
Grant date	September 17	March 12
Share price at grant date	£ 14.69	£ 14.51
Vesting period (years)	3	3
Expected dividends (yield) (%)	2.9	2.8
Fair value (EPS) (£)	6.74	6.68
Fair value (TSR) (£)	2.92	2.89

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(21) 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 years ended December 31, 2007 and 2006, were as follows:

	2007	2006
Current income tax expense	\$ 180,429	134,249
Deferred income tax benefit	<u>(787,061)</u>	<u>(833,582)</u>
Income tax expense (benefit)	<u>\$ (606,632)</u>	<u>(699,333)</u>

The differences between the "expected" income tax at statutory income tax rates and the income tax expense as reported in the accompanying financial statements for the years ended December 31, 2007 and 2006, were as follows:

	2007	2006
Income tax at statutory rate	\$ (276,246)	(1,479,454)
Adjustment:		
Non-deductible tax expense on overseas income	342	562
Tax-exempt OBU income	(39,936)	(12,209)
Tax-exempt income from securities trading	(74,108)	(18,650)
Net unrealized gain on valuation of trading financial assets and liabilities	23,953	(10,935)
Non-deductible loss on disposal of land	-	7,216
Adjustments for separately taxed interest income	(197,791)	(40,798)
Recognition of investment income under equity method	(30,399)	(61,643)
Impairment loss – interest in associates under equity method	23,937	-
Underestimation of prior years' income tax	-	23,133
Overestimation (underestimation) of prior years' loss carryforwards	(1,069)	327,969
Expiration of loss carryforwards	521,415	-
Investment tax credit – employee training costs	(4,972)	(7,136)
Other reconciling items	24,514	126,343
Allowance valuation	<u>(576,272)</u>	<u>446,269</u>
Income tax expense (benefit)	<u>\$ (606,632)</u>	<u>(699,333)</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

For the years ended December 31, 2007 and 2006, the components of deferred income tax expense (benefit) were as follows:

	2007	2006
Recognition of investment loss under equity method	\$ (306)	(1,222)
Adjustments on deferred revenue	(74,044)	-
Allowance for bad debt in excess of limit	371,578	227,525
Pension costs in excess of limit	(34,956)	-
Reversal of (provision for) reserve for default losses and transaction losses	(2,242)	10,913
Asset impairment losses	(57,173)	(66,710)
Realized gain on inter-affiliate transactions	23	40
Realized portion of unrealized interest income on financial assets	20,626	-
Overestimation (underestimation) of prior years' loss carryforwards	(1,069)	103,240
Increase in loss carryforwards	(964,836)	(1,546,501)
Expiration of loss carryforwards	521,415	-
Investment tax credit—employee training cost	(4,972)	(7,136)
Others	15,166	-
Allowance valuation	<u>(576,271)</u>	<u>446,269</u>
Deferred income tax expense (benefit)	<u>\$ (787,061)</u>	<u>(833,582)</u>

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

	2007
Allowance for bad debt in excess of limit	\$ 265,969
Unrealized interest income on financial assets	722,428
Others	<u>27,119</u>
	<u>\$ 1,015,516</u>

As of December 31, 2007 and 2006, the deferred income tax assets were as follows:

	2007	2006
Deferred income tax assets	\$ 3,694,495	2,468,189
Valuation allowance—deferred income tax assets	<u>(464,968)</u>	<u>(1,041,239)</u>
Deferred income tax assets, net	<u>\$ 3,229,527</u>	<u>1,426,950</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2007 and 2006, details of the temporary differences, loss carryforwards and 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	\$ 59,481	14,870	58,255	14,564
Deferred revenue	296,175	74,044	-	-
Allowance for bad debts in excess of tax limit	-	-	422,437	105,609
Pension costs in excess of limit	139,822	34,956	-	-
Reserve for default losses	67,345	16,836	58,378	14,594
Asset impairment losses	1,256,009	314,002	1,027,315	256,829
Unrealized gain on inter-affiliate transaction	6,078	1,519	6,167	1,542
Unrealized interest income on financial assets	2,807,205	701,802	-	-
Loss carryforwards	10,049,622	2,512,405	8,271,662	2,067,915
Investment tax credit—employee trading costs	12,108	12,108	7,136	7,136
Others	47,812	11,953	-	-
		<u>\$ 3,694,495</u>		<u>2,468,189</u>

As of December 31, 2007 and 2006, the components of estimated income tax receivable recorded under accounts receivable were as follows:

	2007	2006
Current income tax	\$ 180,430	134,249
Withheld income tax	(68,149)	(68,985)
Underestimation of prior years' income tax	-	(23,133)
Separate taxation	(180,088)	(110,554)
Non-deductible tax on overseas income	(342)	(562)
	<u>\$ (68,149)</u>	<u>(68,985)</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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 December 31, 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)	<u>3,859,344</u>	2012
	<u><u>\$ 10,049,622</u></u>	

Pursuant to the ROC Statute for Upgrading Industries, the Bank's unused investment tax credit—employee training cost as of December 31, 2007, was as follows:

Year incurred	Amount	Year of expiry
2006	\$ 7,136	2010
2007 (estimated)	<u>4,972</u>	2011
	<u><u>\$ 12,108</u></u>	

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 December 31, 2007 and 2006, was as follows:

	2007	2006
ICA	\$ <u><u>173,345</u></u>	<u><u>39,061</u></u>

The accumulated deficits on December 31, 2007 and 2006, were generated after 1998.

(22) 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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

On 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 December 31, 2007 and 2006, details of capital surplus were as follows:

	2007	2006
Paid-in capital in excess of par value	\$ 5,049,109	216,106
Gain on disposal of treasury stock	-	8,024
Others	406	870
	<u>\$ 5,049,515</u>	<u>225,000</u>

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.

On June 9, 2006, the stockholders' meeting approved the distribution of year 2005 earnings as follows:

1. \$957,257 appropriated as legal reserve and \$12 as special reserve.
2. \$472,361 appropriated as stock dividend and \$1,574,536 as cash dividends.
3. \$113,716 appropriated as directors' and supervisors' remuneration.

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

4. \$91,998 appropriated as employees' cash bonus and \$21,718 as their stock bonus.

The aforementioned capital increase from appropriation of earnings was approved by the FSC on July 3, 2006. The designation date for the capital increase was August 14, 2006, and the registration was completed on January 8, 2007. Should the aforementioned employees' bonuses and directors' and supervisors' remuneration be considered as expenses in the year 2005, the basic earnings per share net of tax for the year 2005 would be \$1.88.

As of December 31, 2007, no retained earnings could be distributed due to accumulated deficits.

- 5) Weighted-average outstanding shares of common stock

As of December 31, 2007 and 2006, the weighted-average outstanding shares of common stock were 1,906,044 thousand shares and 1,629,039 thousand shares, respectively.

(23) 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, 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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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

As of December 31, 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	20,350,541	303,369
Available-for-sale financial assets – beneficiary certificates	4,647,530	5,444,989
Financial liabilities held at fair value through profit or loss – derivatives	20,331,565	44,331

For the years ended December 31, 2007 and 2006, the Bank recognized losses and gains amounting to \$32,006 and \$113,146, respectively, from the changes in fair value of financial instruments that were evaluated by using valuation techniques.

- 2) As of December 31, 2007 and 2006, outstanding derivative contracts held by the Bank were as listed below:

	Notional amount	2007 Fair value	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 181,311,202	2,505,046	2,505,045
Forward contracts	332,202,241	4,009,467	3,958,824
Cross-currency swaps	247,815,499	1,822,385	3,355,516
Interest rate swaps	1,216,493,398	6,205,338	8,328,498
Interest rate linked deposits	196,521,858	4,137,515	2,183,682
	<u>\$ 2,174,344,198</u>	<u>18,679,751</u>	<u>20,331,565</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

	December 31, 2006		
	Notional amount	Fair value	
		Gain (assets)	Loss (liabilities)
Option contracts	\$ 2,909,820	21,134	21,134
Forward contracts	6,754,084	133,481	828
Cross-currency swaps	1,369,300	109,311	-
Currency swaps	609,626	9,732	-
Interest rate swaps	6,161,497	29,647	22,305
Structured instrument	45,634	64	64
	<u>\$ 17,849,961</u>	<u>303,369</u>	<u>44,331</u>

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 during the 250 trading days in a year.

The table below lists the market risk of financial instruments of the Bank as of December 31, 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. Starting from July 1, 2007, the interest rate risk and the exchange rate risk have been assessed at a 97.5% confidence level under the aforementioned probability distribution.

Type of market risk	Annual average	2007		Annual average	2006	
		Maximum	Minimum		Maximum	Minimum
Exchange rate	\$ 4,707	8,125	1,495	44,429	112,089	7,373
Interest rate	56,363	66,596	46,313	68,579	169,465	25,715

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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 December 31, 2007 and 2006, the percentage of loans with collateral was 61.75% and 64%, 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. No additional disclosure was provided for financial assets associated with credit risks since their book values, netting of corresponding valuation allowance, reflect their credit exposures.

As of December 31, 2007 and 2006, the maximum credit risk exposure of the Bank's loans and advances to customers in the event of other parties failing to perform their obligations was as summarized below by industry category.

Industry	2007	2006
Manufacturing	45,399,062	55,032,224
Commercial	23,857,032	17,354,764
Construction	2,968,368	12,496,894
Individual	196,882,460	196,477,293
Others	<u>23,336,389</u>	<u>14,161,279</u>
	<u>292,443,311</u>	<u>295,522,454</u>

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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2007 and 2006, the 10 group companies with the largest outstanding loans were as follows:

Unit: thousand dollars, %

December 31, 2007			
Rank	Group Company	Outstanding loan	% of net assets
1	Chi Mei Group	4,438,478	18.64 %
2	AUO Group	3,609,913	15.16 %
3	Mosel Vitelic Group	2,617,911	10.99 %
4	Pou Chen Group	1,466,112	6.07 %
5	Swire Group	1,306,205	5.49 %
6	Formosa Chemicals Group	1,293,663	5.43 %
7	Esterm Multimedia Group	1,279,365	5.37 %
8	Chailease Group	1,093,113	4.59 %
9	Richemont Group	1,086,000	4.56 %
10	BenQ Group	841,527	3.53 %

December 31, 2006			
Rank	Group Company	Outstanding loan	% of net assets
1	AUO Group	3,907,945	26.23 %
2	Ta-Tung Group	2,344,944	15.74 %
3	Ta-Yuan Group	2,327,069	15.62 %
4	Yageo Group	2,015,826	13.53 %
5	Mosel Vitelic Group	1,919,003	12.88 %
6	ChiMOS Technologies Group	1,900,728	12.76 %
7	Chi Mei Group	1,883,480	12.64 %
8	PSC Group	1,653,397	11.10 %
9	BenQ Group	1,394,748	9.36 %
10	Foxconn Group	1,388,841	9.32 %

(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.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

3. Liquidity risk

As of December 31, 2007 and 2006, the liquidity reserve ratio was 22.35% and 14.95%, 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 December 31, 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

Assets	2007					Total
	Within 3 months	3 months-1 year	1~5 years	Over 5 years		
Cash and cash equivalents	\$ 7,281,782	-	-	-	-	7,281,782
Balance at Central Bank and loans and advances to banks	30,886,452	4,188,947	5,320,586	-	-	40,395,985
Loans and advances to customers	32,904,444	19,079,376	23,394,418	212,970,098	-	288,348,336
Financial assets held at fair value through profit or loss, net	20,105,416	5,360,901	-	-	-	25,466,317
Available-for-sale financial assets, net	10,854,402	30,838,502	14,504,900	13,763,297	-	69,961,101
Other assets	-	-	-	38,766,717	-	38,766,717
Hedged items	-	-	-	10,343,395	-	10,343,395
Total assets	<u>\$ 102,032,496</u>	<u>59,467,726</u>	<u>43,219,904</u>	<u>275,843,507</u>	-	<u>480,563,633</u>
Liabilities						
Deposits by Central bank and other banks	\$ 17,426,009	2,711,526	5,965,090	-	-	26,102,625
Deposits and remittances	215,574,401	83,826,218	81,246,400	13,798	-	380,660,817
Financial debentures	3,333,333	11,478,567	-	-	-	14,811,900
Financial liabilities held at fair value through profit or loss	-	-	-	20,331,565	-	20,331,565
Other liabilities	-	-	-	14,542,976	-	14,542,976
Hedged items	-	-	300,000	-	-	300,000
Total liabilities	<u>\$ 236,333,743</u>	<u>98,016,311</u>	<u>87,511,490</u>	<u>34,888,339</u>	-	<u>456,749,883</u>
Spread	<u>\$ (134,301,247)</u>	<u>(38,548,585)</u>	<u>(44,291,586)</u>	<u>240,955,168</u>	-	<u>23,813,750</u>

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Assets	Within 3 months	3 months-1 year	2006		Total
			1-5 years	Over 5 years	
Loans and advances to banks	\$ 10,006,224	1,745,100	-	-	11,751,324
Loans and advances to customers (note 1)	26,283,009	24,325,827	63,862,479	176,211,488	290,682,803
Available-for-sale financial assets – bills and bonds	25,704,349	555,657	84,970	-	26,344,976
Available-for-sale financial assets – bonds	5,579,705	6,906,440	21,246,475	18,204,535	51,937,155
	<u>\$ 67,573,287</u>	<u>33,533,024</u>	<u>85,193,924</u>	<u>194,416,023</u>	<u>380,716,258</u>
Liabilities					
Deposits by Central Bank and other banks	\$ 1,466,820	-	-	-	1,466,820
Time deposits (notes 2 and 3)	71,957,368	127,438,151	9,604,363	-	208,999,882
Financial debentures	-	-	8,000,000	14,800,000	22,800,000
Loans from Central Bank and other banks	800,000	-	-	-	800,000
	<u>\$ 74,224,188</u>	<u>127,438,151</u>	<u>17,604,363</u>	<u>14,800,000</u>	<u>234,066,702</u>

Note 1: Non-performing loans are excluded.

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

Note 3: Negotiable certificates of deposit are excluded.

Duration analyses of assets and liabilities in statutory form were as follows:

December 31, 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	\$ 604,672,864	88,199,421	40,575,738	50,156,933	55,705,271	370,035,501
Capital used	745,589,261	82,949,254	68,775,616	71,820,275	108,452,898	413,591,218
Spread	(140,916,397)	5,250,167	(28,199,878)	(21,663,342)	(52,747,627)	(43,555,717)

December 31, 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 181 to 1 year	Over 1 year
Capital provided	\$ 45,007,225	2,753,474	1,042,431	1,342,160	1,860,644	38,008,516
Capital used	62,447,960	3,138,454	1,255,056	920,657	1,372,188	55,761,605
Spread	(17,440,735)	(384,980)	421,503	488,456	(17,753,089)	(17,440,735)

December 31, 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	\$ 419,112,245	65,919,907	20,573,076	16,919,639	20,412,800	295,286,823
Capital used	495,080,189	66,097,809	53,400,942	65,655,893	122,584,292	187,341,253
Spread	(75,967,944)	(177,902)	(32,827,866)	(48,736,254)	(102,171,492)	107,945,570

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

December 31, 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	\$ 610,392	272,091	102,627	137,973	13,925	83,776
Capital used	620,195	372,450	78,613	89,129	48,849	31,154
Spread	(9,803)	(100,359)	24,014	48,844	(34,924)	52,622

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 December 31, 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

Assets	December 31, 2007								Total
	Within 1 month	1-3 months	3 months ~ 1 year	1-2 years	2-3 years	3-4 years	Over 5 years	Non-interest	
Cash and cash equivalents	\$ 7,281,782	-	-	-	-	-	-	-	7,281,782
Balance at Central Bank and loans and advances to banks	30,805,345	81,107	4,188,947	5,320,586	-	-	-	-	40,395,985
Loans and advances to customers	23,674,242	9,230,202	19,079,376	4,235,902	12,021,313	7,137,203	212,970,098	-	288,348,336
Financial assets held at fair value through profit or loss, net	17,724,967	2,380,450	5,360,900	-	-	-	-	-	25,466,317
Available-for-sale financial assets, net	2,601,402	8,253,000	30,838,502	4,070,000	3,626,000	6,808,900	13,763,297	-	69,961,101
Other assets	-	-	-	-	-	-	-	38,766,717	38,766,717
Hedged item	-	-	-	-	-	-	10,343,395	-	10,343,395
Total assets	\$ 82,087,738	19,944,759	59,467,725	13,626,488	15,647,313	13,946,103	237,076,790	38,766,717	480,563,633
Liabilities									
Deposits by Central bank and other banks	\$ 16,230,119	1,195,890	2,711,526	1,919,971	4,045,119	-	-	-	26,102,625
Deposits and remittances	144,330,796	71,243,605	83,826,218	70,622,290	10,624,110	-	13,798	-	380,660,817
Financial debentures	-	3,333,333	11,478,567	-	-	-	-	-	14,811,900
Financial liabilities held at fair value through profit or loss	-	-	-	-	-	-	-	20,331,565	20,331,565
Other liabilities	-	-	-	-	-	-	-	14,542,976	14,542,976
Hedged item	-	-	-	300,000	-	-	-	-	300,000
Total liabilities	\$ 160,560,915	75,772,828	98,016,311	72,842,261	14,669,229	-	13,798	34,874,541	456,749,883
Sensitivity gap	\$ (78,473,177)	(55,828,069)	(38,548,586)	(59,215,773)	978,084	13,946,103	237,062,992	3,892,176	23,813,750

Unit: thousand dollars

Assets	December 31, 2006								Total
	Within 1 month	1-3 months	3 months ~ 1 year	1-2 years	2-3 years	3-4 years	Over 5 years		
Available-for-sale financial assets									
Financial debentures	\$ -	-	-	400,000	400,000	-	370,601	-	1,170,601
Loans and advances to customers									
Medium-term loan	-	-	30,000	1,834,000	2,290,827	-	-	-	4,154,827
Sensitivity gap	\$ -	-	30,000	2,234,000	2,690,827	-	370,601	-	5,325,428

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Ratios of interest-rate-sensitive assets to liabilities and interest-rate-sensitive spreads to net equity disclosed in statutory form were as follows:

December 31, 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	\$ 251,577,507	25,250,725	21,384,685	70,667,754	368,880,671
Interest-rate-sensitive liabilities	90,032,600	208,634,969	51,912,136	2,149,404	352,729,109
Interest-rate-sensitive spread	161,544,907	(183,384,244)	(30,527,451)	68,518,350	16,151,562
Interest-rate-sensitive equity, net					23,813,750
Ratio of interest-rate-sensitive assets to liabilities (%)					104.58
Ratio of interest-rate-sensitive spread to net equity (%)					67.82

December 31, 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	\$ 1,025,816	237,667	90,819	169,278	1,523,580
Interest-rate-sensitive liabilities	1,816,792	45,580	44,521	40,295	1,947,188
Interest-rate-sensitive spread	(790,976)	192,087	46,298	128,983	(423,608)
Interest-rate-sensitive equity, net					(1,182,737)
Ratio of interest-rate-sensitive assets to liabilities (%)					78.25
Ratio of interest-rate-sensitive spread to net equity (%)					35.82

December 31, 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	\$ 311,725,000	7,780,000	1,855,000	54,633,000	375,993,000
Interest-rate-sensitive liabilities	141,146,000	181,835,000	56,534,000	2,492,000	382,007,000
Interest-rate-sensitive spread	170,579,000	(174,055,000)	(54,679,000)	52,141,000	(6,014,000)
Interest-rate-sensitive equity, net					14,896,831
Ratio of interest-rate-sensitive assets to liabilities (%)					98.43
Ratio of interest-rate-sensitive spread to net equity (%)					(40.37)

December 31, 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	\$ 372,145	510,119	524,044	-	1,406,308
Interest-rate-sensitive liabilities	438,647	526,783	575,632	-	1,541,062
Interest-rate-sensitive spread	(66,502)	(16,664)	(51,588)	-	(134,754)
Interest-rate-sensitive equity, net					457,014
Ratio of interest-rate-sensitive assets to liabilities (%)					91.26
Ratio of interest-rate-sensitive spread to net equity (%)					(29.49)

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

5. Information on interest-bearing assets and liabilities:

	2007	
	Average amount	Average %
Assets:		
Loans and advances to banks (including balance at Central Bank, loans to banks, deposits with affiliate companies and advances to affiliate companies)	\$ 22,491,564	4.78
Loans and advances to customers	316,835,049	4.48
Financial assets held at fair value through profit or loss	6,653,311	2.18
Available-for-sale financial assets	76,980,855	2.17
Liabilities:		
Deposits by and loans from other banks (including deposits from affiliate companies)	33,504,044	2.07
Demand deposits	201,213,258	0.35
Time deposits	169,695,368	2.50
Negotiable certificates of deposit	1,689,379	1.57
Subordinated financial debentures	14,814,110	4.57
	2006	
	Average amount	Average %
Assets:		
Balance at Central Bank	12,605,641	1.07
Loans and advances to banks	10,733,686	2.85
Financial assets at fair value through profit or loss	1,100,898	2.31
Loans and advances to customers	284,860,592	4.02
Available-for-sale financial assets	52,725,839	4.38
Liabilities:		
Deposits by other banks	4,080,449	1.46
Demand deposits – NTD	13,188,007	0.47
Demand deposits – foreign currency	6,709,525	1.63
Time deposits – NTD	184,970,494	1.92
Time deposits – foreign currency	8,895,145	4.04
Negotiable certificates of deposit	6,163,488	1.69
Loans from other banks	1,135,222	5.32
Subordinated financial debentures	18,064,516	3.76

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

6. 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.

7. 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.

4) Fair value hedge

A fair value hedge is the hedging of the exposure to changes in fair value of recognized fixed-rate assets or liabilities that are attributable to particular interest risks that could affect profit or loss. As of December 31, 2007, the hedged items and the book value of the corresponding hedging instruments were as follows:

Hedged item	Fair value of hedging instruments	
	Contract type	2007
Loan	Interest rate swaps	\$ 1,998
Available-for-sale financial assets:		
Government bond	Interest rate swaps	(27,151)
Corporate bond	Interest rate swaps	(20,856)
Financial debentures	Interest rate swaps	1,689
Time deposits	Interest rate swaps	<u>(59)</u>
		<u>\$ (44,379)</u>

For the year ended December 31, 2007, gain on changes in fair value of hedged items recognized in the current period amounted to \$44,015.

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STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(24) Related-party transactions

1) Name and relationship of related party

Name	Relationship
Standard Chartered Bank Ltd. (SCB)	The Bank's parent company (effective October 19, 2006, SCB obtained 51% of the Bank's voting shares; on November 2, 2006, SCB had announced obtaining 95.4% of the Bank's voting shares)
Hsinchu Futures Co., Ltd. (Hsinchu Futures)	Investee under equity method
Standard Chartered Life Insurance Agent Co., Ltd. (former Hsinchu Insurance Agent Ltd.; renamed in November 2007)	Investee under equity method
Standard Chartered Taiwan Insurance Agent Co., Ltd. (former Chuchian Insurance Agent Ltd.; renamed in November 2007)	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)
Standard Chartered Bank Taipei Branch (SCB Taipei)	Affiliate
Standard Chartered Bank New York (SCB New York)	Affiliate
Standard Chartered Bank London (SCB London)	Affiliate
Standard Chartered Bank Tokyo (SCB Tokyo)	Affiliate
Standard Chartered Bank Hong Kong (SCB Hong Kong)	Affiliate
Standard Chartered Bank Singapore (SCB Singapore)	Affiliate
Others	Deemed related parties in accordance with SFAS No. 6, "Related Party Disclosures"

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

2) Significant transactions with related parties

1. Deposits

As of December 31, 2007 and 2006, deposits provided by related parties were as summarized below:

Name	2007		Interest rate (%)
	Ending balance	Percentage of deposits (%)	
Deposits by individual related parties not over 1% of total deposits	\$ <u>471,374</u>	<u>0.12</u>	0.00~8.00

Name	2006		Interest rate (%)
	Ending balance	Percentage of deposits (%)	
Deposits by individual related parties not over 1% of total deposits	\$ <u>1,305,937</u>	<u>0.37</u>	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 years ended December 31, 2007 and 2006, interest expenses on the above deposits were \$6,369 and \$22,182, respectively.

2. Loans

As of December 31, 2006, loans to related parties were as summarized below:

Unit: thousand dollars

Type of loan	Number of accounts or name of related party	Maximum during the period	2006			Collateral	Difference between terms and conditions offered to the accounts and to the general public
			Ending balance	Repayment			
				On-time	Overdue		
Employee credit loan	75	237,157	45,766	45,766	-	House, unsecured	None
Mortgage	74	1,603,118	99,817	99,817	-	House	None

As of December 31, 2007, there was no such transaction.

For the years ended December 31, 2007 and 2006, interest income resulting from the above loans was \$1,483 and \$46,531, respectively.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

3. Deposits with affiliates

As of and for the year ended December 31, 2007, deposits with affiliates and related interest income were as follows:

	Balance	2007 Interest rate	Interest income
SCB New York	31,241	3.78~3.87	14,569
SCB London	29,194	4.25~6.25	-
SCB Tokyo	29,555	-	-
SCB Hong Kong	44,993	-	-
Other	7,021	-	-
	<u>\$ 142,004</u>		<u>14,569</u>

For the year ended December 31, 2006, there was no such transaction.

4. Loans and advances to affiliates

As of and for the year ended December 31, 2007, loans and advances to affiliates and related interest income were as follows:

	Balance	2007 Interest rate	Interest income
SCB London	6,445,426	0.46~8.45	23,299
SCB Tokyo	2,804,846	0.42	-
Other	9,238	-	-
	<u>\$ 9,259,510</u>		<u>23,299</u>

For the year ended December 31, 2006, there was no such transaction.

5. Deposits by affiliates

As of and for the year ended December 31, 2007, deposits by affiliates and related interest income were as follows:

	Balance	2007 Interest rate	Interest expense
SCB Tokyo	5,487,121	0.75~5.15	6,950
SCB London	3,646,031	2.75~5.50	83,425
Other	9,877	-	-
	<u>\$ 9,143,029</u>		<u>90,375</u>

For the year ended December 31, 2006, there was no such related-party transaction.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

6. Property transactions

As of December 31, 2006, details of securities transactions entered into between the Bank and its related parties were as listed below:

	Type of security	2006	
		Purchase price	Selling price
SCB Taipei	Bill (recorded as trading financial assets under financial assets held at fair value through profit or loss)	\$ <u>599,499</u>	<u>-</u>

There was no such transaction for the year ended December 31, 2007.

7. Derivative transactions

As of December 31, 2007, derivatives transactions engaged in with affiliated parties were as follows:

Name	Contracts	Contract duration period	2007			
			Notional	Unrealized effect in current period	Balance sheet Account	Balance
SCB London	Option contract	2008.1.8~2008.2.4	\$ 16,611,649	(63,294)	Financial assets held at fair value through profit or loss	65,633
					Financial liabilities held at fair value through profit or loss	128,928
	Forward contract	2008.1.2~2012.4.26	359,654,710	(18,868,525)	Financial assets held at fair value through profit or loss	3,922,885
					Financial liabilities held at fair value through profit or loss	22,791,410
	Intersect rate linked deposits	2008.2.4	5,262,611	(12,008)	Financial liabilities held at fair value through profit or loss	12,008
SCB Tokyo	Forward contract	2008.1.4	1,889,657	31,913	Financial assets held at fair value through profit or loss	31,913
SCB Singapore	Forward contract	2008.1.2~2008.11.24	223,661,734	(505,724)	Financial assets held at fair value through profit or loss	722,022
					Financial liabilities held at fair value through profit or loss	1,227,746

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

As of December 31, 2006, notional amounts for derivatives transactions engaged in with SCB Taipei were as follows:

Instrument	2006
Options contracts	\$ 38,676
Spot	51,597
Cross-currency swaps	1,369,300
Currency swaps	446,781
Interest rate swaps	1,028,438

8. Bills and bonds purchased (sold) under reverse repurchase (repurchase) agreements

For the years ended December 31, 2007 and 2006, details of bond transactions engaged in with affiliated parties were as follows:

Name	2006			Interest (income) expense
	Highest balance	Ending balance	Interest rate (%)	
Repurchases:				
International Bills Financial Corporation	\$ 1,936,971	-	1.38~1.46	(10,840)
Other	41,094	<u>5,034</u>	1.21~1.50	<u>(202)</u>
Total		<u>\$ 5,034</u>		<u>(11,042)</u>
Reverse repurchases				
International Bills Financial Corporation	\$ 642,540	<u>-</u>	1.45~1.66	<u>2,961</u>

For the year ended December 31, 2007, there was no such transaction.

9. 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 December 31, 2007, unrealized gains from affiliated-company transactions amounted to \$22,890 and were recorded as other liabilities.
10. As of December 31, 2007 and 2006, administration fee payable to SCB amounted to \$1,192,613 and \$0, respectively, recorded under notes and accounts payable.
11. As of December 31, 2007 and 2006, accounts payable to SCB for share-based payment schemes' costs amounted to \$133,097 and \$0, respectively, recorded under accounts payable.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(25) Pledged Assets

Pledged assets	Pledged for	Amount	
		December 31, 2007	December 31, 2006
Bonds (recorded as available-for-sale financial assets as of December 31, 2007 and 2006)	Provisional seizure	\$ 650,300	644,300
	Securitization of mortgage loans	700,000	700,000
Total		<u>\$ 1,350,300</u>	<u>1,344,300</u>

Fair values of underlying assets of bills and bonds sold under repurchase agreements are disclosed at note 13.

Refundable security deposits regulated by relevant bank operation regulations:

Security deposits	Purpose	Amount	
		December 31, 2007	December 31, 2006
Bonds (recorded as available-for-sale financial assets as of December 31, 2007 and 2006)	Reserve for trust business	\$ 100,000	50,000
	Security deposits for bill trading operations	50,000	50,000
	Security deposits for futures trading	60,000	60,000
	Security deposits for security brokerage	200,000	200,000
	Security deposits for bond trading	10,000	-
			<u>420,000</u>
Time deposits (recorded as refundable deposits as of December 31, 2007 and 2006)	Clearing account reserve	100,000	100,000
	Security deposits for bond trading	10,000	20,000
	Security deposits for bond underwriting	40,000	-
		<u>150,000</u>	<u>120,000</u>
Total		<u>\$ 570,000</u>	<u>480,000</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

- 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.

(26) Commitments and Contingent Liabilities

- 1) Significant service agreements

The Bank entered into a bancassurance agreement with PCA Life Assurance Co., Ltd. (PCA) to promote and sell approved insurance policies. Pursuant to the agreement, the Bank will exclusively promote and sell life insurance products underwritten by PCA through the distribution networks in Taiwan. In consideration of the exclusive distribution arrangement, PCA shall pay to the Bank a facilitation fee of US\$32,000 thousand. As of December 31, 2007, the first installment of \$337,262 has been received by the Bank. The amount \$41,087 was recognized as fee income in 2007, and the remaining amount was recorded as deferred revenue.

- 2) Significant purchase agreements

As of December 31, 2007 and 2006, the Bank had construction agreements for expansion and renovation of buildings amounting to \$372,775 and \$51,460, respectively. The unpaid amounts of those agreements was \$236,609 and \$10,200, respectively.

- 3) Operating leases

The Bank has entered into certain operating leases for its branches. As of December 31, 2007, estimated minimum future lease payments were as follows:

Fiscal year	Amount
2008	\$ 155,126
2009	154,047
2010	158,119
2011	159,786
2012 and thereafter	<u>323,408</u>
	<u><u>\$ 950,486</u></u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

4) Others

	December 31, 2007	December 31, 2006
Consignment collection for others	\$ 21,151,123	26,687,917
Traveller's checks held on consignment for sale	54,785	89,361
Securities and goods in custody and other trust assets	1,017,286,438	1,431,286
Trust assets	<u>177,086,365</u>	<u>76,590,055</u>
	<u>\$ 1,215,578,711</u>	<u>104,798,619</u>
Unused lines of credit	<u>\$ 37,946,637</u>	<u>80,948,248</u>
Other guarantees	<u>\$ 17,233,334</u>	<u>8,478,106</u>
Letters of credit issued	<u>\$ 6,968,464</u>	<u>1,982,844</u>
Securities sold under repurchases agreements	<u>\$ 2,528,902</u>	<u>17,783,000</u>
Securities purchased under reverse repurchase agreements	<u>\$ 98,777</u>	<u>-</u>

- 5) As of and for the years ended December 31, 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	\$ 54,000	Trust capital	\$ 177,086,365
Short-term investments	<u>177,032,365</u>		
Total trust assets	<u>\$ 177,086,365</u>	Total trust liabilities	<u>\$ 177,086,365</u>

Trust Balance Sheet

2006

Trust assets		Trust liabilities	
Short-term investments	\$ 76,574,089	Trust capital – pecuniary trust	\$ 74,583,288
Real estate	15,966	Trust capital – securities trust	1,990,801
		Trust capital – real estate	<u>15,966</u>
Total trust assets	<u>\$ 76,590,055</u>	Total trust liabilities	<u>\$ 76,590,055</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Trust Income Statement

	2007	2006
Trust revenue:		
Interest revenue	\$ 196	17
Cash dividends	12,306	42
Realized gain on investments—stock	16,336	-
Unrealized gain on investments—stock	44,419	-
Realized gain on investments—mutual fund	1,749	-
Unrealized gain on investments—mutual fund	468	-
Exchange gain	(9)	-
	<u>75,465</u>	<u>59</u>
Trust expenses:		
Management expenses	301	8
Service charges	562	39
Realized investment loss—stock	574	-
Unrealized investment loss—stock	33,007	-
Unrealized investment loss—mutual fund	1,463	-
Exchange loss	205	-
Construction expense	228,250	-
	<u>264,362</u>	<u>47</u>
Net loss before income tax	(188,897)	12
Income tax expense	8	-
Net loss after income tax	<u>\$ (188,905)</u>	<u>12</u>

Schedule of investment for trust business

December 31, 2007

	Invested items	Amount
Short-term investments:		
Bonds		\$ 68,026,834
Common shares		2,220,729
Mutual funds		<u>106,784,802</u>
		<u>\$ 177,032,365</u>

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

Schedule of investment for trust business

December 31, 2006

Investment items	Amount
Short-term investments:	
Securities	\$ 1,990,801
Mutual funds	<u>74,583,288</u>
Subtotal	<u>76,574,089</u>
Real estate	
Land	<u>15,966</u>
	<u>\$ 76,590,055</u>

Foreign currency pecuniary trust business engaged in by the Offshore Banking Unit (OBU) as of December 31, 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 December 31, 2006.

(27) Significant Disaster Loss: none.

(28) Subsequent Events: none.

(29) Others

- 1) Summary of staff costs and depreciation, depletion and amortization expenses

A summary of staff costs and depreciation, depletion and amortization expenses for the years ended December 31, 2007 and 2006, is as follows:

Account	Function	2007			2006		
		Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Staff costs:							
Salaries		-	4,239,756	4,239,756	-	2,596,328	2,596,328
Labor and health insurance		-	207,707	207,707	-	167,712	167,712
Pension		-	272,938	272,938	-	372,075	372,075
Other employment		-	344,651	344,651	-	-	-
Depreciation		-	628,686	628,686	-	550,868	550,868
Depletion		-	-	-	-	-	-
Amortization		-	-	-	-	2,052	2,052

- 2) Reclassification

For the year ended December 31, 2007, certain amounts have been reclassified and presented to conform to the financial statements for the year ended December 31, 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	<u>118,556</u>
Net cash inflow provided by business assignment	<u><u>1,006,506</u></u>

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

1. Major foreign currency positions

Currency	December 31, 2007		Currency	December 31, 2006	
	Original currency	NTD Equivalent		Original currency	NTD Equivalent
USD	759,398	24,636,855	NZD	1,531	35,261
EUR	201,529	9,619,025	USD	964	31,421
RMB	851,002	3,778,211	HKD	6,546	27,440
HKD	134,900	561,015	CAD	723	20,327
SGD	5,704	128,710	GBP	225	14,417

2. Profitability

Items		Unit: %	
		2007	2006
Return on assets (note 1)	Before income tax	(0.24)	(1.42)
	After income tax	(0.11)	(1.24)
Return on net equity (note 2)	Before income tax	(5.71)	(32.35)
	After income tax	(2.57)	(28.16)
Net profit ratio (note 3)		(2.93)	(41.28)

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

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

5) Capital adequacy

Capital adequacy ratios of the Bank are disclosed below:

Item		Period-end	December 31, 2007	December 31, 2006
Self-owned capital	Tier 1 Capital		19,530,549	13,697,601
	Tier 2 Capital		13,571,961	13,697,600
	Tier 3 Capital		-	-
	Capital		33,102,510	27,395,201
Risk- weighted assets	Credit risk	Standardized approach	314,828,550	270,337,648
		Internal-rating-based approach	-	-
		Secularizations	-	-
	Operational risk	Basic indicator approach	-	-
		Standardized approach / alternative approach	33,091,135	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	33,635,550	31,769,476
		Internal model approach	-	-
Risk-weighted assets		381,555,235	302,107,124	
Capital adequacy ratio			8.68 %	9.07 %
Tier 1 capital / risk-weighted assets			5.12 %	4.53 %
Tier 2 capital / risk-weighted assets			3.56 %	4.53 %
Tier 3 capital / risk-weighted assets			- %	- %
Common stock / total assets			4.49 %	3.86 %

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

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

Item		Period-end	December 31, 2007	December 31, 2006 (note 1)
Self-owned capital	Tier 1 Capital		19,791,914	13,922,644
	Tier 2 Capital		13,799,619	13,922,644
	Tier 3 Capital		-	-
	Capital		33,591,533	27,845,288
Risk- weighted assets	Credit risk	Standardized approach	314,924,477	270,055,635
		Internal-rating-based approach	-	-
		Secularizations	-	-
	Operational risk	Basic indicator approach	-	-
		Standardized approach / alternative approach	33,275,474	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	33,673,677	31,900,476
		Internal model approach	-	-
Risk-weighted assets			381,873,628	301,956,111
Capital adequacy ratio			8.80 %	9.22 %
Tier 1 capital / risk-weighted assets			5.18 %	4.61 %
Tier 2 capital / risk-weighted assets			3.61 %	4.61 %
Tier 3 capital / risk-weighted assets			- %	- %
Common stock / total assets			4.49 %	3.86 %

(Note 1) In accordance with the modified Regulations Governing the Capital Adequacy Ratio of Banks announced by the FSC 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 were modified and announced on January 4, 2007, by the FSC, and the frequency of the report was modified as within two months after each half-year end.

(Continued)

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Notes to Financial Statements

(30) 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.

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				Remark
						Number of shares	Pro forma number of shares	Total		
								Shares	Percentage	
Hsinchu Futures Co., Ltd.	3 F., No. 130, Si Wei Road, Hsin-Chu, Taiwan	Futures brokerage	88.57 %	261,193	(1,226)	30,112	-	30,112	88.57 %	-
Standard Chartered Life Insurance Agent Co., Ltd.	No. 85, Chung-Zeng Road, Hsin-Chu, Taiwan	Life insurance agent	100.00 %	166,619	101,970	300	-	300	100 %	-
Standard Chartered Taiwan Insurance Agent Co., Ltd.	No. 85, Chung-Zeng Road, Hsin-Chu, Taiwan	Property insurance agent	100.00 %	27,506	19,627	300	-	300	100 %	-
Paradigm Assets Management Co., Ltd.	19F., No. 123, Sec. 2, Chung-Hsiao East Road, Taipei, Taiwan	Securities investment trust	20.00 %	95,747	-	9,000	-	9,000	20 %	-

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

2. Lending to other parties: none.
3. Guarantees and endorsements for other parties: none.
4. Information regarding securities held as of December 31, 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.
13. Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: none.

(31) Segment Information: none.