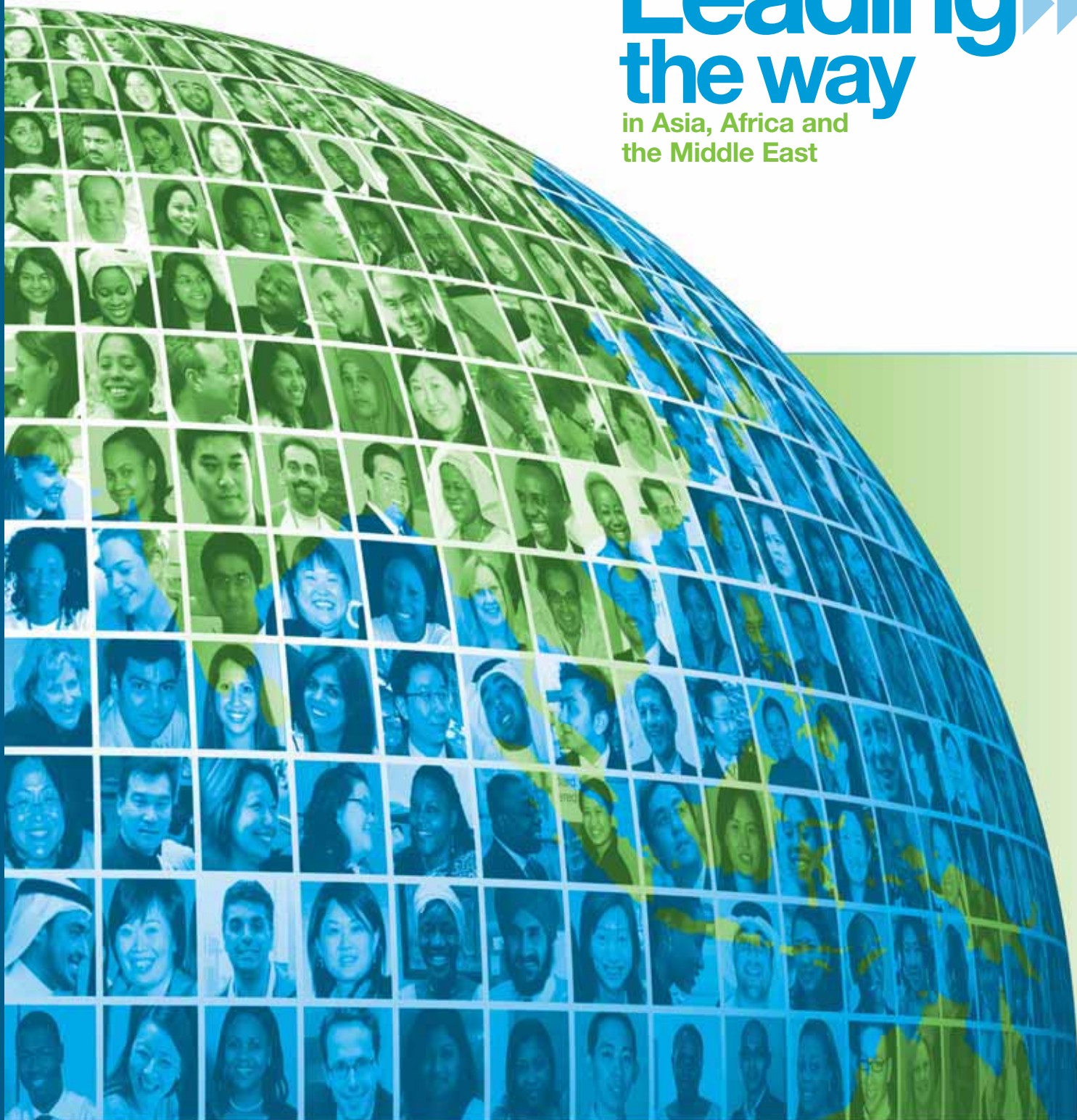


Annual Report and Accounts 2006

Leading the way

in Asia, Africa and
the Middle East



Standard Chartered is built on teamwork, partnership and the diversity of our people.

Standard Chartered employs almost 60,000 people worldwide, representing over 100 nationalities. Today, our top management is made up of over 50 nationalities. Diversity and Inclusion lies at the heart of our values and is integral to our journey to become the world's best international bank. Our diverse teams help to fuel creativity and innovation, supporting the development of innovative products and services for our customers. Diversity and Inclusion is a fundamental part of the Group's culture and remains a long-term priority for Standard Chartered.

What we stand for

Strategic intent	The world's best international bank Leading the way in Asia, Africa and the Middle East				
Brand promise	The Right Partner – Leading by Example				
Values	Responsive	Trustworthy	Creative	International	Courageous
Approach	Participation Focusing on attractive, growing markets where we can leverage our relationships and expertise		Competitive Positioning Combining global capability, deep local knowledge and creativity to outperform our competitors		Management Discipline Continuously improving the way we work, balancing the pursuit of growth with firm control of costs and risks
Commitment to stakeholders	Customers Passionate about our customers' success, delighting them with the quality of our service	Our People Helping our people to grow, enabling individuals to make a difference and teams to win	Communities Trusted and caring, dedicated to making a difference	Investors A distinctive investment delivering outstanding performance and superior returns	Regulators Exemplary governance and ethics wherever we are

 For more information visit www.standardchartered.com

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Global trade flows

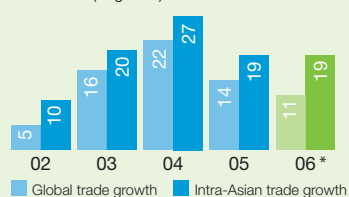
Asia Pacific



Hong Kong accounted for **17%** of global IPO activity in 2006

- ▶ Intra-Asia trade is double the size of Asia-US trade
- ▶ China is the single most important driver of intra-Asia trade
- ▶ The outlook for trade within Asia is favourable, with the Association of Southeast Asian Nations (ASEAN) having committed to a European-style free trade agreement by 2015
- ▶ Asia is also playing a leading role in the globalisation of capital markets
- ▶ In 2006, Hong Kong was the single largest global centre for initial public offering (IPO) activity, accounting for 17% of IPO capital raised worldwide, followed by London and New York
- ▶ Two out of the three largest IPOs in 2006 were raised on the Hong Kong Stock Exchange

Growth of intra-Asian trade outstrips global trade (% growth)



*Estimated

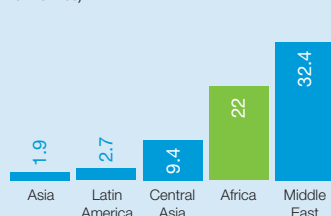
Africa



Africa-China trade soared nearly tenfold in seven years to **\$55.5bn** in 2006

- ▶ Asia and Africa are forging a mutually beneficial relationship. There is strong demand from Asia for a range of commodities exported from Africa. Africa's growing demand for manufactured goods makes Asia a natural trading partner
- ▶ The World Bank estimates that China spent more than \$10 billion on infrastructure projects in Africa in 2006

China's oil suppliers (million tonnes)



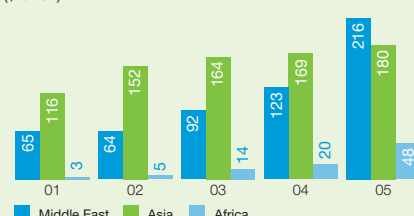
Middle East



Largest trade surplus in the world of **\$216bn** in 2005

- ▶ High oil prices have allowed the Middle East to overtake Asia as the largest trade surplus region in the world, estimated at \$216 billion in 2005
- ▶ The migration of expatriates into the Gulf Cooperation Council states from elsewhere in the Middle East, South Asia and South East Asia is also driving activity – remittances generated by these expatriates reached \$59 billion in 2005, accounting for almost 25% of world remittances

Global trade surpluses by region (\$ billion)



Emerging

New global trade flows are emerging. This extends beyond the flow of traditional merchandise goods to commodities, services, investment, people and remittances. Importantly, these flows are emerging between the Group's footprint regions. Through the diversity of its business, products, geography and people, Standard Chartered is well positioned to capitalise on the emerging trade corridors of Asia, Africa and the Middle East.

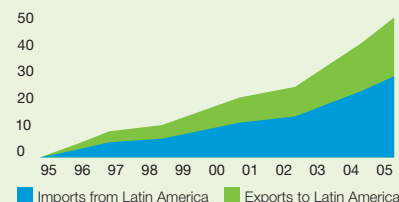
The Americas



Trade grew by
300%
over five years

- » This is the best of times for some Latin American markets, resulting from important structural changes within the region and the benign global environment
- » New opportunities are emerging, one of which is the rapid increase in trade with Asia – and the trade is in both directions

China's trade with Latin America
(\$ billion, 12 month rolling sum)



South Asia



South Asia has
1/5th
of the world's
population

- » South Asia's demographic profile is one of its many assets – 40% of the population is under 15 years old
- » It is not just the size and age of the population that is attractive: the rise of the middle class will boost growth in consumerism
- » Migration has become a global phenomenon. The outflow of migrant workers from South Asia, and the corresponding inflow of overseas remittances, has had an enormous impact on the region's economy
- » India is the single largest recipient of remittance flows, accounting for more than 10% of the global market

Demographic profile favours South Asia
(high proportion of young people)



For more information visit
www.standardchartered.com/global/home/research_index

Source: Standard Chartered Global Research

2006 Performance highlights

Operating income

▲ 26%

\$8,620m

2005: \$6,861m

Profit before taxation

▲ 19%

\$3,178m

2005: \$2,681m

Total assets

▲ 24%

\$266bn

2005: \$215bn

Normalised earnings per share

▲ 11%

170.7 cents

2005: 153.7 cents

Normalised return on ordinary shareholders' equity

16.9%

2005: 18.0%

Dividends per share

▲ 11%

71.04 cents

2005: 64.00 cents

Employees

59,205

2005: 43,899

Countries and territories

56

2005: 56

Nationalities

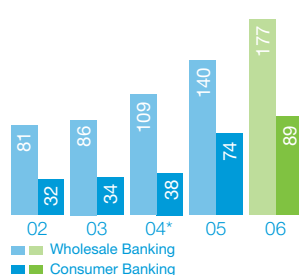
105

2005: 89

Five-year review

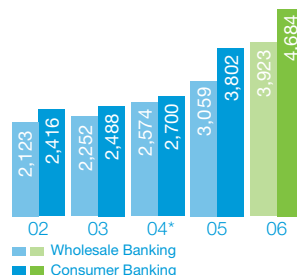
Total assets

\$ billion



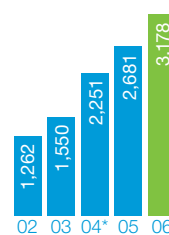
Operating income

\$ million



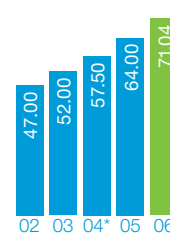
Profit before taxation

\$ million



Dividends per share

cents



Throughout this document unless another currency is specified the word 'dollar' or symbol '\$' means United States dollar and the word 'cents' or symbol 'c' means one-hundredth of one United States dollar.

* Figures for 2004 have been restated under IFRS, excluding IAS32 and IAS39.

Balanced growth driving performance

Our performance is well balanced between the twin engines of **Consumer and Wholesale Banking**. Both businesses are innovating and diversifying to meet the changing needs of customers and clients in some of the world's most exciting and dynamic markets

		Description	Priorities
Consumer Banking	 <p>"Our focus on diversification and innovation drove income growth across our markets."</p> <p>Mike DeNoma Group Executive Director responsible for Consumer Banking</p>	<p>Consumer Banking serves over 14 million customers across Asia, Africa and the Middle East where we have the competitive advantage to build significant market positions over time while delivering strong financial performance. We provide a wide range of innovative products and services such as credit cards, personal loans, mortgages, deposit taking and wealth management services to individuals and small and medium enterprises (SMEs). Innovative products and channels set us apart from the competition in many of our markets.</p>	<ul style="list-style-type: none"> ▶ Innovation in products and services, drawing on our international network ▶ Diversifying product range to gain new customers and meet the changing needs of existing customers ▶ Investing in new businesses to accelerate momentum ▶ Strengthening distribution infrastructure ▶ Simplifying processes for employees so they can spend more time serving customers
	 <p>"We delivered a strong performance, driven by client income and leading positions in key products through innovative and groundbreaking deals."</p> <p>Mike Rees Chief Executive, Wholesale Banking</p>	<p>Wholesale Banking provides corporate and institutional clients with services in trade finance, cash management, lending, securities services, foreign exchange, debt capital markets and corporate finance. Our focus is on a client-driven business and being the leading international bank of choice in Asia, Africa and the Middle East, providing responsive, innovative and creative solutions to all our clients.</p>	<ul style="list-style-type: none"> ▶ Client-led strategy based on deepening client relationships to become their core bank ▶ Enhancing product range to add strategic and higher-value products ▶ Diversifying services to secure greater share of clients' business ▶ Innovative structures and groundbreaking transactions to gain share of mind ▶ Distribution of assets to enhance capital efficiency



The Banker Awards 2006

- » Global Bank of the Year
- » Bank of the Year for Asia Pacific
- » Bank of the Year for Africa
- » Bank of the Year for Global CSR (Corporate Social Responsibility)
- » Bank of the Year for six countries



Retail Banker International Awards 2006

- » Best Retail Bank in Asia Pacific



The Asset Triple Asia Awards 2006

- » Best Loan House
- » Best Asian Currency Bond House
- » Best Securitisation House



Euromoney Awards for Excellence 2006

- » Best at Project Finance in Asia
- » Best at Project Finance in Africa
- » Best Bank in Africa

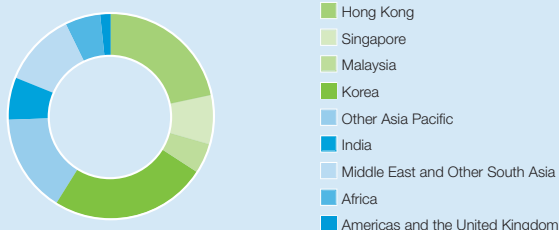


Hong Kong Council of Social Service

- » Total Caring Company Award

Contribution

Operating income by region
\$ million



Profit before taxation
\$1,322m*
2005: \$1,273m*

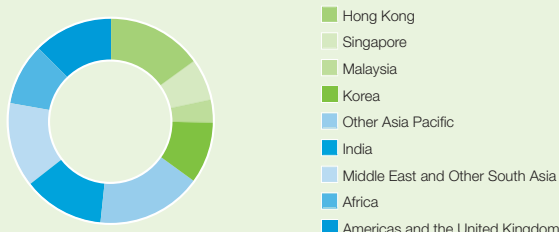
Operating income
\$4,684m*
2005: \$3,802m

Highlights and achievements

- » Over 230 new wealth management product launches across the network (120 in 2005)
- » 24-hour Service Assurance launched in India and Malaysia
- » Private Bank launched in Korea and performing well
- » Launched Express Trade to target SME customers in Asia, Africa and the Middle East
- » Innovative card products launched: American Express card in Hong Kong, CashOne, Business Platinum Card and Platinum Access Instalment Card in Singapore, Titanium Super Value Card in India
- » Launched consumer finance in Thailand, Korea and India
- » Approximately 14% increase in branch network and 13% increase in sales force

Contribution

Operating income by region
\$ million



Profit before taxation
\$1,849m*
2005: \$1,444m*

Operating income
\$3,923m*
2005: \$3,059m

Highlights and achievements

- » Continuing strong client income growth concentrated in strategic markets combined with shift towards strategic value-added products
- » Moved global corporate relationships to new level by increasing advisory role
- » Launched next-generation foreign exchange products and full commodity derivatives capabilities
- » Involved in market firsts and benchmark-setting deals globally
- » Distribution of assets accelerated – a key enabler of client income growth
- » Enhanced Web Bank internet service for transaction banking and added integrated service platform and standardised account opening process across global network

* Amounts exclude corporate items which are not allocated to Consumer Banking or Wholesale Banking.

Leading the way across all our regions

We are increasingly diversified geographically with multiple drivers of organic income growth across our markets of Asia, Africa and the Middle East. This diversity means that our business is well balanced, helping to ensure the resilience of our financial performance



"We are seizing opportunities for growth as economies expand, wealth is reinvested and markets are increasingly interlinked through new trade and investment flows."

Gareth Bullock

Director responsible for governance across Africa, Americas and the UK, Middle East and Other South Asia



"Our deep local knowledge and relationships help us drive performance in fast-growing Asian economies as they expand and become increasingly global."

Kai Nargolwala

Group Executive Director responsible for governance across Asia

Africa

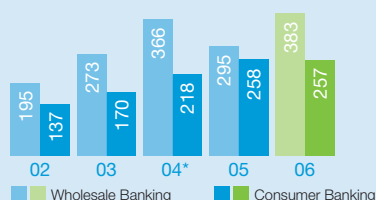
Africa

Africa had good income growth across the region. To leverage on the emerging trade flows between Africa and China, Standard Chartered set up the China-Africa Trade Corridor desk to offer financial solutions to small and medium enterprises (SMEs) venturing abroad. 2006 was a bumper year for Africa in terms of awards. Standard Chartered won a total of 16 regional and country awards, including Bank of the Year in Africa from The Banker.

Operating income
\$640m
2005: \$553m

Employees
5,070
2005: 4,893

Operating income



Americas and the United Kingdom

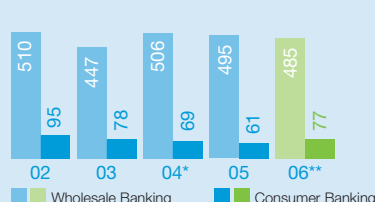
Americas and the United Kingdom

Standard Chartered's position in these sophisticated markets provides a platform for us to engage and enhance business opportunities across our network. In London, the Group's head office provides governance and regulatory standards and plays a key role in serving corporate clients doing business in our markets. In the United States, we maintained our position as one of the leading dollar clearing houses.

Operating income
\$579m
2005: \$556m

Employees
1,955
2005: 1,804

Operating income



Middle East and Other South Asia (MESA)

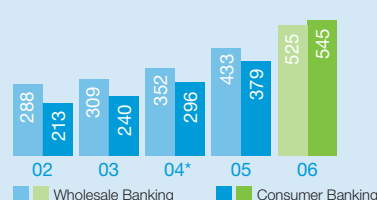
MESA

MESA continues to perform strongly for Standard Chartered. In Pakistan, Standard Chartered is the leading international bank with the most extensive branch network following its acquisition and successful integration of Union Bank. In 2006 Standard Chartered was the first bank to own its premises in the Dubai International Financial Centre. Among other developments, we launched a commodities derivatives desk in Dubai.

Operating income
\$1,070m
2005: \$812m

Employees
7,186
2005: 4,240

Operating income



* Income for 2004 has been restated under IFRS, excluding IAS32 and IAS39.

** Amounts exclude corporate items which are not allocated to Consumer Banking or Wholesale Banking.

Asia

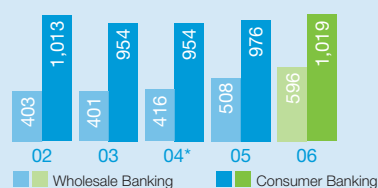
Hong Kong

Standard Chartered Bank Hong Kong delivered a strong all-round performance. Consumer Banking led the way in product innovation and introduced six-day banking to meet the needs of customers. For Wholesale Banking, new global markets product sales led by providing specialised services to clients while client acquisition and deepening relationships supported the strong performance of the business.

Operating income
\$1,615m
 2005: \$1,484m

Employees
4,825
 2005: 4,025

Operating income



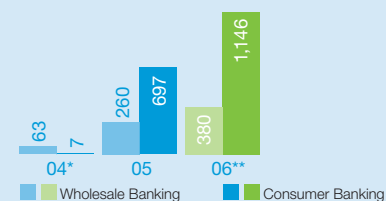
Korea

SC First Bank achieved strong income growth and increased operating profit, led by growth in SMEs and Wealth Management that drove Consumer Banking business successes. The Wholesale Banking business completed Asia's largest cross-border securitisation with a \$1.26 billion floating rate seven-tranche residential mortgage-backed securitisation for Korea First Mortgage No. 6 Ltd.

Operating income
\$1,522m
 2005: \$957m

Employees
6,023
 2005: 5,775

Operating income



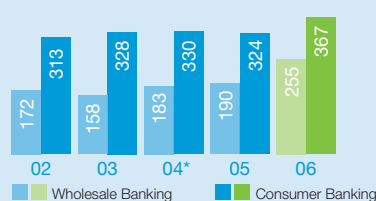
Singapore

Our leading position in this market was maintained by strong performances from both Wholesale and Consumer Banking. Wholesale Banking focused on landmark deals and structured products while continuing to drive transaction banking and lending. Product innovation was an important feature of Consumer Banking's impressive performance.

Operating income
\$622m
 2005: \$514m

Employees
3,385
 2005: 2,818

Operating income



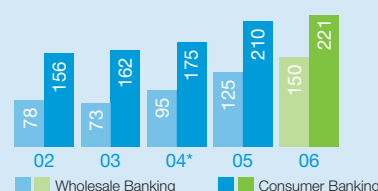
Malaysia

Standard Chartered Bank Malaysia registered a record trading profit in 2006 for Wholesale Banking on the back of broad-based product growth and superior portfolio quality. Consumer Banking continues to register strong income growth from wealth management products and personal loans with effective cost management and material investment in infrastructure. Our Islamic banking business initiated the world's first Islamic cross-currency derivative and Islamic forward rate agreement.

Operating income
\$371m
 2005: \$335m

Employees
4,024
 2005: 2,942

Operating income



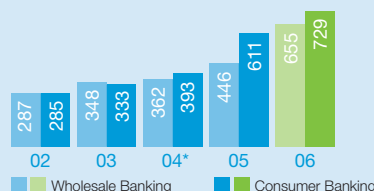
Other Asia Pacific

We continue to be well positioned in a range of fast-expanding markets in the Asia Pacific region. In China we expanded our network and produced strong organic income growth. The acquisition of Hsinchu International Bank made Standard Chartered the largest international bank in Taiwan. In Indonesia we increased our stake in PT Bank Permata, reinforcing our position as the country's largest international bank.

Operating income
\$1,384m
 2005: \$1,057m

Employees
11,645
 2005: 7,305

Operating income



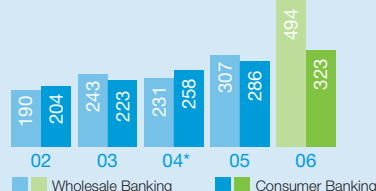
India

Standard Chartered Bank in India made substantial investments to increase its distribution network in 2006. Already the largest international bank in India by branch network, the Bank opened 30 new consumer finance centres, 18 new automated teller machines and an additional branch in Mumbai. Our 24-hour Service Assurance initiative was an industry first in guaranteeing service turnaround times to Consumer Banking customers' enquiries.

Operating income
\$817m
 2005: \$593m

Employees
15,092
 2005: 10,097

Operating income



Within this document the Hong Kong Special Administrative Region of the Peoples Republic of China is referred to as 'Hong Kong'; 'Middle East and Other South Asia' ('MESA') includes: Pakistan, United Arab Emirates ('UAE'), Bahrain, Jordan and Bangladesh; and 'Other Asia Pacific' includes: China, Indonesia, Thailand, Taiwan and the Philippines.

Relationships, local knowledge and international capability



"We have strong momentum in the Group, producing good financial performance while investing for future growth."

Mervyn Davies, CBE
Chairman

Highlights of 2006

\$3,178m

Profit before taxation

16.9%

Normalised return on
ordinary shareholders' equity

\$8,620m

Operating income

71.04 cents

Dividends per share

Final results 2006

I am very pleased to report that Standard Chartered delivered another year of record income and profits in 2006, driven by strong organic growth and continued good progress in Korea.

- Profit before taxation is up 19 per cent to \$3.18 billion
- Income has increased 26 per cent to \$8.62 billion
- Normalised earnings per share growth is 11 per cent

The Board is recommending an annual dividend of 71.04 cents per share.

We have strong momentum in the Group, producing good financial performance while investing for future growth. Our existing businesses performed well. We made strategic acquisitions in Taiwan and Pakistan.

Governance

I became Chairman of the Group in November 2006 and Peter Sands was appointed as Group Chief Executive. This is an evolution of the Group's leadership which provides continuity in strategy at a time of rapid growth. It is positive for shareholders and will enable us to continue our record of consistently good performance.

An important part of my role as Chairman is to build on the relationships I have developed around the world over the past 10 years as a Board member of Standard Chartered PLC. Banking is a relationship business and that is especially true of Standard Chartered and the markets we operate in. We value highly the relationships which we have with national leaders, regulators, clients and other stakeholders and we want to be known as The Right Partner for them.

In recent years we have considerably strengthened our Board to ensure that we have a robust level of governance in place for our business. We will continue to ensure that we have a top-quality Board in place that will challenge as well as support the Group's executive management team.

In August we welcomed Lord Turner of Ecchinswell to the Board. He was Chairman of the United Kingdom's Independent Pensions Commission until April 2006 and from 1995 to 1999 was Director General of the Confederation of British Industry.

At the end of the year, Hugh Norton retired from the Board as Senior Independent Director. We are very grateful for the 11 years' service which he has given to Standard Chartered as a Board member.

Management depth, talented and diverse employees

I would like to thank Bryan Sanderson, who stepped down as Chairman in November after serving for three and a half years. The Group grew strongly and prospered under his chairmanship.

Global economy

Our relationships, deep local knowledge and international banking capability mean we are able to capitalise on opportunities in the world's most dynamic markets.

The economic environment has been good. The world economy is thriving, trade is soaring, commodity markets are healthy and China and India are opening up. New trade corridors are emerging for Asia, both within the region and with other regions, and trade volumes are rising sharply.

Globally, and on the ground in many of our markets, the picture looks good. The dynamics of the world economy are changing, as the global importance of Asia, Africa and the Middle East continues to grow.

These changes will continue to impact the world economy. Three quarters of a billion jobs are likely to be created in Asia alone over the next decade. A young middle class is emerging across Asia. Companies in markets such as India are becoming increasingly international and, as a bank with almost 150 years' experience in India, we are delighted to be working with our clients as they become major forces in the global economy.

Across the Middle East and parts of Africa there is a greater sense of awareness of the need to diversify economies. Globalisation and deregulation are key themes for the regions in our footprint. The emergence of a new wealthy class in these markets bodes well.

But inevitably, there remain political and economic threats. In recent years, there have also been increasing concerns about United States growth, the dollar and trade imbalances. These concerns are now joined by questions about ample liquidity, asset price inflation and whether markets are pricing sufficiently for risk.

It is important to be aware of such issues. At some stage there will be a cyclical slowdown and the benign credit environment will come to an end. Banks need to be acutely aware of such risks, and must ensure they are prepared and protected.

We are well placed to gain from the many changes that are under way around the globe and will continue our focus on creating shareholder value through our existing businesses and emerging opportunities.

Summary

During 2006 Standard Chartered made significant strategic progress. We achieved pleasing organic growth in our businesses and completed the acquisitions of Union Bank Limited in Pakistan and Hsinchu International Bank in Taiwan.

We have achieved great momentum and will continue to benefit from the growth opportunities in Asia, Africa and the Middle East and from our investment in the business. We want all our stakeholders to see us as The Right Partner – Leading by Example.

We have the management depth to execute our strategy and we are attracting talented and diverse employees from around the world. The Group is in great shape and we are optimistic about the future.



Mervyn Davies, CBE
Chairman
27 February 2007

Rapid growth, strong financial performance and strategic progress



"We see opportunities for growth across our markets and we see room for improvement on every aspect of our performance."

Peter Sands
Group Chief Executive

2007 Management Agenda

- » Accelerate organic growth
- » Deliver growth from our acquisitions
- » Continuously improve the way we work
- » Building leadership
- » Reinforce the brand

2006: A year of growth and progress



» Pole position in Pakistan

Standard Chartered successfully rebranded all Union Bank's 65 branches overnight. Now with 115 branches in 22 cities, Standard Chartered has strengthened its position as Pakistan's largest international bank.



» Expansion in Taiwan

Taiwan became Standard Chartered's fourth-largest market by income with the acquisition of Hsinchu International Bank. The acquisition positions Standard Chartered to capitalise on North East Asian trade and investment flows.

Standard Chartered has achieved much over the last five years.

We have delivered on our promises to customers, to staff and to shareholders. 2006 was a year of continued rapid growth, strong financial performance and strategic progress. We start 2007 in great shape, with good business momentum and a clear strategy.

Since 2001 our income has almost doubled. So has the number of employees, to nearly 60,000. Then we had fewer than seven million customers. Now we have over 14 million. Including PT Bank Permata in Indonesia, we now have over 1,400 branches compared with fewer than 550 five years ago. Our normalised earnings per share (EPS) have grown at a compound annual growth rate (CAGR) of 21 per cent.

I am proud to have been Group Finance Director during this period of rapid progress and growth.

The fundamentals of our strategy remain the same. Our goal is to be the world's best international bank, leading the way in Asia, Africa and the Middle East. We have made great progress on our strategic journey, but there is much more to do. We see opportunities for growth across our markets. We see room for improvement on every aspect of our performance. The strategy and immediate management priorities are clear. My job is to make them happen.

Our priorities for 2007

- Our top priority for 2007 is to accelerate organic growth. This is the key to shareholder value creation. We increased investment in 2006 and are doing so again in 2007
- We must continue to deliver growth from our acquisitions. We do not buy to grow. We grow what we buy. In 2007 the focus will be on our most recent acquisitions in Pakistan and Taiwan
- We will continuously improve the way we work, enhancing our infrastructure and processes to improve our service to customers and to achieve greater productivity
- We must build leadership capacity, turning talented managers into true leaders. Attracting and developing the next generation of leaders is a critical challenge for me personally
- Finally, we will reinforce the brand. Standard Chartered already has a great brand, but we intend to make it much better known and much more powerful

China

2006 was a year of rapid progress for our business in China. We more than doubled income to almost \$300 million, tripled profits, expanded our network to 22 locations in 14 cities and almost doubled our staff numbers.

We believe 2007 will be equally exciting. We plan to incorporate our business, which will enable us to offer renminbi services to Chinese consumers. We are accelerating investment to expand our network, enhance product capabilities and reinforce infrastructure. By the end of the year, subject to regulatory approval, we would like to have around 40 locations.

China Bohai Bank, in which we have a 19.99 per cent stake, is growing fast. From a greenfield start just 12 months ago, the bank has seven locations and around \$1 billion in assets.

China's importance for Standard Chartered goes well beyond the mainland. In Hong Kong, where we have our biggest business, we reach out across the entire Pearl River Delta, and we also benefit from Hong Kong's increasing role as China's international financial centre. Through our relationships with China's leading companies we are deeply involved in the massive growth of China's trade and investment flows across our footprint, for example in Africa.

India

India is equally important to us. In 2006 we made profits of over \$400 million, up 69 per cent on 2005. In 2007 we will continue to invest in both businesses.

In Wholesale Banking we are growing right across India and are also working to partner major Indian corporates as they now look to expand outside the country. In Consumer Banking we continue to grow our distribution reach and product offer. We now have 81 branches and 36 consumer finance outlets.

Middle East

The Middle East has great organic growth momentum, not just in Dubai, but in Abu Dhabi, Qatar and elsewhere in the region.

We are very well placed to seize the opportunities: our business in United Arab Emirates (UAE) grew income by 32 per cent in 2006. We are leveraging the opportunities in Islamic finance, we see great potential in the Dubai International Financial Centre and we are building our presence in Abu Dhabi.

China, India and the Middle East are three of our biggest opportunities for organic growth. Yet there are many other markets in which Standard Chartered is growing rapidly and where we see great potential. Two examples would be Nigeria and Vietnam.

We drive organic growth not just by geography but also through innovation in the products and services we offer. Our new Private Bank and our corporate finance business are examples.



► Indonesia partnership

The Standard Chartered/PT Astra consortium increased its stake in PT Bank Permata to 89%, creating a platform to provide greater value to customers, staff and shareholders and giving PT Bank Permata a differentiated position in Indonesia.



► Servicing Africa

Standard Chartered's 25% stake in First Africa boosts the Group's capabilities to provide merger and acquisition and leveraged finance services to its clients on Africa-related transactions.

Private Bank

In 2007, Consumer Banking will be rolling out our Private Bank proposition across six markets. We have already launched successfully in Korea, with Singapore soon to follow.

As a new business, our Private Bank requires considerable investment in people, systems and infrastructure. It has the potential to deliver sustained, high-quality earnings growth.

Our Private Bank will be different in several ways. We are international yet also local. We offer both offshore and onshore banking. We are innovative, but also have history and cherish deep longstanding relationships. Our clients will experience a new and distinctive blend of capabilities.

Corporate finance

Within Wholesale Banking, our Global Markets business comprises corporate finance, debt capital markets and foreign exchange and derivatives. Corporate finance includes advisory, private equity, principal finance, project finance and structured finance. Corporate finance has grown rapidly. Over the last three years, income has grown by nearly 300 per cent and doubled in 2006 alone.

This success is based on the seamless way in which our client relationship model works with our product teams. As a result, the number of Wholesale Banking clients from which we derive more than \$1 million of income increased by 27 per cent in 2006.

Organic growth for the Group accounted for over two thirds of income growth in 2006. Yet acquisitions also play an important supporting role.

Acquisitions: Pakistan and Taiwan

In Pakistan we have had a great start. The integration of Union Bank is proceeding rapidly: we rebranded 65 Union Bank branches overnight. With a strong management team drawn from both institutions, we have continued to grow the business, and now have 115 branches.

In Taiwan we are at an earlier stage. We took direct control of the Hsinchu International Bank Board in December, de-listed the bank on 18 January 2007 and are preparing to integrate it with our existing business.

Due to the complexity of legal requirements in Taiwan, the amalgamation of the two entities, upon which the realisation of synergies depends, is unlikely to occur until the second half of 2007. Hsinchu's consumer lending portfolio is more or less as we expected. The small business (SME) portfolio is of mixed quality. We will need to reshape both these portfolios to align with our customer and product profiles.

As a result we anticipate that in 2007 Hsinchu's profit contribution will be offset by the costs of integration, investment initiatives and reshaping the business. We remain confident that Hsinchu will be EPS accretive and will deliver double-digit return on investment in 2008. We can make Hsinchu into a powerful engine of income and earnings growth, capitalising on the opportunities in Taiwan and the rapidly growing trade and investment flows across North East Asia.

Continuous improvement

The Group has already begun to become much more efficient and effective. Now we intend to accelerate progress through a continuous effort to make the way we work simpler, better and faster.

In 2003 we launched an initiative called Outserve to improve our service to customers. We made great progress with this programme, improving our understanding of customer needs, reducing turnaround times and introducing systematic tracking of customer service metrics across the Group.

To drive further improvement in our quality of service, we recognise that we need to address the fundamental infrastructure and processes of the Group. We have therefore launched Outserve Plus, an umbrella for initiatives to enhance our operational effectiveness. Our aim is to simultaneously enhance our quality of service, make life easier for staff and customers and improve productivity. By doing this, we will create the capacity for accelerated growth.

A good example of the progress we have made is in technology production and operations. This is the core engine of the Group. Through hubbing, re-engineering and selective outsourcing, we have managed to improve efficiency, while substantially upgrading service delivery. Technology, production and operations costs have grown by nine per cent CAGR over the last three years, against income growth of 22 per cent CAGR over the same period.

Building leadership

A key priority for 2007, and one on which I place great personal focus, is building leadership. To fulfil our ambitions, we must accelerate the development of talented people across the Group, turning good managers into true leaders, people with the right values and capabilities to drive the business forward.

We already have a highly talented and diverse team of people, and a culture that combines performance edge with a cooperative style and a strong set of shared values. The Group is an environment



» Commitment in Middle East

Standard Chartered was the first bank in the Dubai International Financial Centre to buy its premises and to obtain a commercial banking licence. This reinforces the Group's commitment to United Arab Emirates and to Dubai as the region's business hub.



» Unique sponsorship

Standard Chartered launched the third series of The Greatest Race on Earth 2006/2007. This unique race is based on teamwork and underlines the Group's core values and its promise to be The Right Partner – Leading by Example.

that stimulates, develops and provides new opportunities. But we are not complacent. We want to develop our existing talent further and faster and attract more potential leaders.

To make this happen we are expanding and improving our graduate and MBA recruitment and development, increasing external hiring and refreshing our approach to training programmes. We also welcome the management talent that has come into Standard Chartered with our recent acquisitions.

Reinforce the brand

Standard Chartered is a great brand, one that is well known across our franchise. We have begun to leverage the brand more effectively over the last few years but believe that there is much more we can do. Our goal is that everyone in our markets understands our brand promise to be The Right Partner – Leading by Example and recognises our trustmark.

We will achieve this partly through external marketing but, equally importantly, through the way we use the brand internally. We need the brand to be embedded in everything we do and to inform every interaction with customers.

Our brand is also about the way we act within the communities in which we work. For example, we are very proud of our achievements with Seeing is Believing, our campaign to address preventable blindness. Here we have certainly been leading by example and had a huge impact.

In the same way we are now putting a lot of focus on the environment and sustainable development, working out what role we should play on issues like climate change.

These are our priorities for 2007 – accelerating organic growth, delivering on acquisitions, continuously improving the way we work, developing leadership and talent and reinforcing our brand.

Outlook

We start 2007 in great shape with good momentum. While there are many potential risks and uncertainties in the world, our businesses are performing strongly and we are clear about our strategy and priorities.

For the Group as a whole, including Korea and our acquisitions, we anticipate:

- Continued good income momentum with both businesses delivering good double-digit income growth for the full year
- Accelerated investment and improved productivity. We are accelerating investment in new products, new capabilities

and in extending distribution. Yet we are also accelerating our drive for improved productivity, with a range of initiatives to re-engineer process, increase hubbing and enhance infrastructure. In the first half of 2007, expenses growth will exceed income growth largely due to accelerating investment in Consumer Banking, particularly in China and in the Private Bank. However, taking the year as a whole we expect expenses to grow broadly in line with income

- Continued focus on risk management. In Wholesale Banking, we are not as yet seeing any deterioration in our portfolio, but we do anticipate a reduction in the potential for recoveries as the stock of impaired assets falls. In Consumer Banking, we expect the impairment charge to reflect the improving environment in Taiwan balanced by the inclusion of our most recent acquisitions and the changing mix and maturity of the portfolio, such as the growth of the unsecured and SME portfolios

Summary

2006 has been another very good year for Standard Chartered. I would like to thank our customers and shareholders for their support, and the Group's staff for their professionalism, enthusiasm and commitment. We look forward to another good year.

Peter Sands

Group Chief Executive
27 February 2007



» Brand impact

Our new corporate brand campaign helped to drive strong performance and had a big impact on our business by driving deeper engagement and emphasising our philosophy of partnership and teamwork across our global network.



The key to our performance in 2006 was organic growth. To improve performance, we must innovate and diversify to meet the needs of our customers and clients

In 2006 Standard Chartered built on its record of consistent performance, once again achieving strong financial results for shareholders while investing for the future.

As in previous years, the key to the Group's performance was organic growth from its existing businesses. At the heart of driving sustainable organic growth are diversity and innovation in products and services, combined with balance in geographies and increasing scale.

The Group combined organic growth in 2006 with investments and acquisitions to achieve scale and create future growth in key markets, in line with its stated strategy of seizing these opportunities when they add to shareholder value.

Innovation and transformation

Standard Chartered operates in some of the world's fastest-growing and most dynamic markets in Asia, Africa and the Middle East. To improve our performance in these markets, we must innovate and diversify to meet the needs of customers and clients.

In 2006 Consumer Banking had a bumper year of product launches, and Wholesale Banking continued its record of groundbreaking transactions.

Consumer Banking has diversified by building wealth management, personal loans, services for small and medium enterprises (SMEs) and consumer finance onto its traditional mortgage and credit card product range. In 2006 the pace of change accelerated with more than 230 new wealth management product launches compared with 120 in 2005.

We completed the branding of Standard Chartered Private Bank to serve high net worth clients. The service was launched in Korea in November 2006 and will be extended to other key markets in 2007.

Innovative SME products that helped drive Consumer Banking's performance included the XtraSaver savings account in Singapore – with its flexible cashback feature – and the rolling out of SME Express Trade, a one-stop trade finance service, across the network.

Wholesale Banking has been transformed in recent years by adding more sophisticated, higher-value services such as credit derivatives and corporate advisory to its long-standing cash management and lending business.

In 2006, strategic and value-added services continued to increase as a share of income, and Wholesale Banking achieved

broad-based, consistent growth across all client groups. Client income growth was strongest in key strategic markets such as China, Hong Kong, Korea, India and the Middle East.

This transformation is reflected in the 2006 deal league tables. We rose to first place in Asia-Pacific syndicated loans and entered the top 10 in Asian bonds (both excluding Japan and Australia) for G3 (United States/Japan/Germany) currencies. Wholesale Banking's progress attracted outside recognition with more than 70 awards across its product groups.

Growth in China

The rapid development of our business in China demonstrates the strength of our organic growth strategy.

We have operated uninterrupted in China for almost 150 years and our business there continues to thrive as China emerges as an economic power and opens its financial markets. At the end of 2006 we had 11 branches, eight sub-branches and three representative offices, giving us one of the largest networks of the international banks in China.

We have made rapid progress in Wholesale Banking in China, based on our deep local relationships with companies and financial institutions. In 2006 income grew strongly and we established an onshore corporate advisory service.



► One-of-a-kind managers' conference

In August 2006, 900 branch managers from 31 countries travelled to Jeju Island in Korea to take part in Standard Chartered's first Global Branch Managers' Conference as a platform for discussions, debates and sharing of best practice. The conference incorporated an Ironman triathlon, in which the managers were challenged to 'go the distance' in the same way that Standard Chartered employees go the extra mile for customers. We believe the conference is the only one of its kind in the world among financial institutions.

In 2006, Wholesale Banking was named as one of two pioneer market makers for renminbi futures contracts at the Chicago Mercantile Exchange, the largest regulated market for foreign exchange.

In 2007, opportunities will open up in Consumer Banking as China eases limits on providing services such as mortgages, credit cards and wealth management to Chinese citizens in local currency. In December 2006 we were the first international bank to apply for local incorporation – a key step towards approval to offer these products.

In October we gained approval to provide Qualified Domestic Institutional Investor (QDII) services to Chinese investors seeking to invest in overseas investment products. In December we launched our first QDII product, which broke new ground by allowing investors to allocate assets actively.

To complement our organic growth strategy, in 2005 we took a 19.99 per cent stake in China Bohai Bank, the country's first new national joint-stock commercial bank since 1996. China Bohai Bank opened in February 2006 and now has seven outlets and is making good progress.

Expansion in North East Asia

China increasingly trades with other markets in North East Asia and in 2006 we became the leading international bank in the region.

Standard Chartered fulfilled a long-held ambition to expand in Taiwan by buying Hsinchu International Bank in December for \$1.2 billion. The acquisition gives us an additional 83 branches and over 3,300 Mandarin-speaking employees in this key market, with its young population and growing trade links with China and Hong Kong.

Hong Kong, our biggest market, achieved strong growth with income increasing in both businesses. Consumer Banking showed renewed momentum, fuelled by a strong performance in wealth management and expansion in SME services. We led the way in customer service as the first bank to announce six-day opening.

Wholesale Banking in Hong Kong achieved strong income growth and invested in client relationships in the fast-growing Global Markets business and increased its client count by 25 per cent.

Standard Chartered bought SC First Bank in Korea, another key North East Asian market, in 2005. The business is performing well as it introduces new products and services.

In 2006 SC First Bank launched 104 new wealth management products and gained about 400,000 new accounts. SC First Bank has revolutionised the market for SMEs in Korea with Business Instalment Loans and has sold \$686 million of these products, the highest sales in the Group.

Wholesale Banking has a huge opportunity in Korea to provide more sophisticated services for local and international companies. SC First Bank has gained new corporate clients and these generated 75 per cent of income in 2006.

Standard Chartered also became one of the first market makers for Korean won futures at the Chicago Mercantile Exchange.

Other Asian growth markets

Asian markets across our network showed strong growth as their economies expanded and Asia-linked trade flows increased.

In 2006 the world woke up to the confidence and dynamism of India as foreign direct investment surged and India's companies looked abroad for expansion. India presents many opportunities for Standard Chartered, which opened in Calcutta in 1858 and is India's biggest international bank in terms of branch network.

Both Consumer and Wholesale Banking achieved strong income and profit growth in India, based on product innovation and increased client income.

Wholesale Banking's performance was led by strategic products such as transaction banking, rates and foreign exchange. The corporate finance business is advising on acquisitions as Indian companies expand overseas, including Tata Steel's takeover of Thailand's Millennium Steel in 2006.

Consumer Banking in India opened 30 consumer finance centres, 18 automated teller machines (ATMs) and a branch in Mumbai. The growth of the business was fuelled by wealth management, SMEs and personal loans.

In 2006 we led the way in urging the United Kingdom (UK) to support a free trade agreement between the European Union (EU)



Enhanced Web Bank

Standard Chartered's Web Bank transaction banking clients were given enhanced features, including single sign-on access and user-friendly navigation, markedly improving the internet banking experience. Web Bank provides one channel across client segments, geographies and products, offering cash, trade, supply chain and securities, rates and foreign exchange initiation capabilities for companies to better manage their working capital.



24-hour service assurance

As part of its drive to enhance customers' experience, Standard Chartered launched a first-of-its-kind customer service initiative in India by promising to provide assistance within 24 hours of receiving an SMS text message from the customer. If an enquiry is not dealt with after 24 hours, the customer receives compensation.



Credit card evolution

The first-in-market Standard Chartered Platinum Access card marked a step forward in the evolution of the Singapore credit card market in response to changing consumer trends. The card automatically converts any purchase above S\$100 into a two-year fixed instalment plan, giving customers flexibility and control over their spending and payments.

and India as part of a wider drive to promote trade liberalisation between Britain, the EU and Asia. We were part of British Chancellor of the Exchequer the Rt. Hon. Gordon Brown MP's delegation to India and we hosted the Rt. Hon. David Cameron MP, the UK Conservative leader, at a seminar for business leaders in Mumbai.

In Singapore we had positive momentum throughout 2006. Consumer Banking performed strongly as it grew in SMEs and wealth management, and Wholesale Banking delivered strong performance resulting from investment in new product capability.

The Group is increasingly diverse and well balanced geographically with many more markets acting as substantial profit drivers than in the past. Standard Chartered now has seven markets that produce more than \$100 million of profit compared with five in 2003.

Malaysia is one such market and produced a strong performance in 2006 based on innovation in Consumer Banking and market-leading transactions in Wholesale Banking, with particular progress in the growing market for Islamic banking services.

Along with United Arab Emirates (UAE) and Pakistan, Malaysia is one of our regional Islamic banking hubs. In 2006 we launched Islamic Business Instalment Loans and home loans in Malaysia. As well as being a business opportunity, Islamic banking brings financial products to those whose beliefs can exclude them from mainstream services.

In Indonesia, Standard Chartered's consortium with PT Astra International increased its holding in PT Bank Permata to 89 percent by buying an additional 25.9 per cent stake in the bank, strengthening Standard Chartered's position in this fast-growing economy.

African trade flows

Standard Chartered's markets are increasingly trading with each other, both within and between regions, and new trade corridors are a key element of the Standard Chartered growth story.

Africa plays an important role in these trade corridors by trading with Asian markets, and is an important part of the Group's strategy. Standard Chartered's business in the region performed strongly in 2006.



» Global commodity derivatives desks

As part of the continued growth of its global rates and foreign exchange business, Standard Chartered has established commodity derivatives desks in Singapore, Dubai and London. This adds another fast-growing service to Wholesale Banking's client offering for corporates and institutions across Asia and demonstrates Standard Chartered's drive to offer clients enhanced risk management capabilities.

In 2005 the Group increased its capital by \$140 million in Nigeria, the second-biggest economy in Sub-Saharan Africa, with its rich reserves of oil and gas.

Standard Chartered in Nigeria has doubled profit before taxation for three successive years and is now the second-biggest contributor to Africa's annual profit, up from 10th in 2003. Zambia, Ghana, Kenya and Botswana also performed well in 2006.

We are the only international bank with a strong presence in Asia and Sub-Saharan Africa and are therefore well placed to benefit from increases in trade and investment between the regions. In December we launched a desk to service SME clients looking to do business between China and Africa and hosted a networking seminar in Shenzhen for Chinese and African businesses.

To tap further into Africa's expanding investment flows, we took a 25 per cent stake in First Africa, a pan-African corporate finance adviser, with a view to increasing our holding in future.

Organic opportunity in MESA

Middle East and Other South Asia (MESA) has become an increasingly important part of the Group as its economies have grown and wealth has been reinvested in the region. Both businesses showed strong organic income and profit growth in 2006 while accelerating investment for the future.

Consumer Banking grew in SMEs, wealth management, cards and personal loans. Innovative Consumer Banking services included the first mobile ATM and sales centre in UAE and the Cricket Card, Pakistan's first sports affinity card.

Wholesale Banking increased client income strongly by providing additional services and innovative products to deepen client penetration, particularly in UAE, our biggest market in the Middle East.

Other Middle Eastern markets are growing quickly as they reinvest petrodollars or seek to diversify their economies. In Qatar, we were one of the first banks to be granted a commercial banking licence by the Qatar Financial Centre regulatory authority.

In September we bought 95.4 per cent of Union Bank of Pakistan for \$487 million – the country's biggest banking acquisition – consolidating our position as the largest international bank in this fast-growing market. Drawing on our experience of integrating SC First Bank in Korea, we rebranded Union Bank's 65 branches overnight.

Boosting the brand

In competitive markets, the trust placed in the Standard Chartered brand is important. In 2006 we launched the new corporate brand campaign, which included television advertising focused on teamwork and partnership, featuring our Seeing is Believing ambassadors Henry Wanyoike and Joseph Kibunja. Data shows that across the majority of markets measured, brand awareness has increased over the year.

The brand is showcased in our sponsorship of nine marathons across our markets, including the Greatest Race on Earth, a series of four Standard Chartered marathons in Nairobi, Singapore, Mumbai and Hong Kong in which teams compete for the biggest prize pool in world athletics of \$1.5 million. Research in 2006 showed that the marathons had a significant positive effect on our brand in those markets.



»Organic growth in China

The Group set up its first branch in Shanghai in 1858 and has an unbroken history of banking in China. At the end of 2006 Standard Chartered had one of the largest foreign bank networks in China with 22 outlets in 14 cities. With China opening its Consumer Banking market, Standard Chartered plans to have about 40 outlets in China by the end of 2007, subject to regulatory approval.



»Africa-China Trade Corridor

Standard Chartered launched the Africa-China Trade Corridor service to offer financial solutions to small and medium enterprises in China and Africa venturing abroad. Standard Chartered is the only international bank with a strong presence in China and Sub-Saharan Africa. With this initiative, we can further leverage on our network strengths and expertise and provide advanced banking services to SME customers looking to do business internationally.



»Branch of the future

The state-of-the-art branch in VivoCity is by far the largest investment in a branch in Singapore. The VivoCity branch boasts many industry firsts such as the Qmatic advanced queueing system to reduce customer waiting time, self-service eKiosks with Internet Banking at the touch of a button, and all-in-one automated teller machines.

Our sponsorship of Afghanistan's cricket team was highlighted when the team toured the UK in 2006, competing against county sides and making many friends with their adventurous play.

Our operations in the Americas and the UK are important elements of our business. Our New York business is a leading dollar clearer, providing an important service to corporate clients and financial institutions trading in our markets.

The Group's businesses in Latin America position Standard Chartered to benefit as economies such as Brazil trade with countries in other regions.

The UK is a hub for the Group's global account management of European businesses and positions us competitively as these companies increasingly seek to trade in Asia, Africa and the Middle East.

The Group Head Office provides governance and regulatory standards across the Group as regulation of the financial services industry is tightened through initiatives such as the Basel II capital accord. Standard Chartered has always been based in the City of London and in 2006 we again sponsored the Great City Race, one of the biggest sporting events for the City of London's financial services industry.

Drive for service excellence

Standard Chartered promises to be The Right Partner to its customers and believes that service excellence is a key differentiator in competitive markets.

At the heart of the Group's service drive is Outserve Plus, a continuation of the Outserve initiative launched in 2003 to make Standard Chartered renowned for its customer service.

Outserve Plus will provide the framework for instilling a culture of continuous improvement and operational excellence across the Group.

In 2007 we will demonstrate progress against targets for customer loyalty in Consumer Banking and for being a core bank to Wholesale Banking clients. We will also establish a baseline

measurement for making life easier for employees, improve productivity and operational excellence, and introduce the key elements of Outserve Plus into daily practices.

Technology plays an important role in our drive to improve service for customers by enabling us to develop new products and speed up service.

We introduced service guarantees for cash and trade finance in nine major markets in 2006, promising delivery within a certain time period. In each market, this initiative increased volumes and also attracted higher-value business. Turnaround times for Business Instalment Loans were reduced to one day from four days.

In 2005 we joined with Singapore Management University to create an innovation centre. In 2006 we completed four projects, including the development of the eKiosk which features in the VivoCity branch in Singapore. We are working on more than 20 additional projects.

Improvements in technology also create efficiencies that allow us to invest in the business. Group Technology and Operations' costs as a percentage of income have fallen each year from 2003.

We made good progress in 2006 on our journey towards becoming the world's best international bank but there is much more that we must do.

At a time of rapid expansion, we have redoubled our efforts to improve the way we work to be The Right Partner to our customers, employees and communities. We believe these activities will distinguish us from competitors and form the bedrock of our future growth.



For more information about us and our wide range of innovative products and services, please log on to www.standardchartered.com

Driving Performance

Service excellence and product innovation will help us achieve our ambition to be the world's best international bank



►► Record product launches

We continue to deliver on our strategy to drive organic growth through product innovation and excellent service. In 2006, we had a wide range of Consumer Banking product launches across our footprint. This was more than double the number of product launches rolled out in 2005. Countries such as Hong Kong, India, Korea, Singapore and United Arab Emirates led the way by testing new product concepts which were then launched in other countries. Global product capability, tapping into our international network, is a key element of Consumer Banking's growth strategy and helps differentiate us in our markets.

►► Operational excellence drive

The quality of our service is a key driver of our success. Consumer Banking's Operational Excellence initiative aims to improve and simplify the way we work, resulting in faster service delivery, higher quality and greater capacity. By revolutionising our banking processes, we want to create a breakthrough in service for our customers and reduce the complexity of processes for employees.

►► Meeting SME customer needs

SME Express Trade is a one-stop trade finance facility aimed at businesses that need a range of trade finance products. Express Trade was launched in early 2006 and has since been introduced in 14 countries across Asia, Africa and the Middle East. The service is an example of product innovation tailored to the needs of customers.

Standard Chartered, as sole lead manager and bookrunner, completed Asia's largest cross-border securitisation with a \$1.26 billion floating rate seven-tranche residential mortgage-backed securitisation (RMBS) transaction for Korea First Mortgage No. 6 Ltd. This issue marks Standard Chartered's sixth RMBS offering to date. It is the biggest unwrapped RMBS ever completed in the international capital market. An unwrapped RMBS transaction does not have a third-party credit guarantee.

Wholesale Banking had a bumper year in 2006. A landmark transaction was the \$1.375 billion acquisition financing for KazMunaiGas to acquire a 33% stake in PetroKazakhstan from China National Petroleum Corp. Another was a \$375 million first-in-market collateralised bond obligation for Polaris Securities in Taiwan. These transactions demonstrate Standard Chartered's leadership position in the market in meeting clients' needs.

Drawing on over 150 years of international banking experience, Standard Chartered actively drives value creation in its markets with a clear strategy for growth. Consumer and Wholesale Banking combine deep local knowledge with global network capabilities to offer a wide range of innovative products and services and award-winning solutions in over 50 countries.

We are a diverse organisation. Our employees represent over 100 nationalities globally and there are more than 50 among our most senior 500 employees

Standard Chartered employs almost 60,000 people in over 50 countries and territories. Demographic changes, competition and our own rapid growth mean that our ability to attract, develop and engage our talent is firmly on the Group's agenda.

Meeting our growth aspirations

In 2006 we saw a 15 per cent net increase in the number of people we employ through organic growth alone and we have welcomed almost 8,000 new employees through acquisitions.

The markets we operate in are increasingly competitive, particularly in key growth markets such as China, India and Korea.

Standard Chartered is alive with career opportunities and we are thinking creatively about how we attract and retain talented individuals. In 2006 we reinvigorated our employee referral programme to encourage employees to introduce family or friends to the Group for a cash incentive. Employee referral is known to be one of the most effective resourcing channels. The programme was implemented in Hong Kong, Singapore, United Arab Emirates and India and resulted in over 1,000 successful appointments in 2006. The global programme will be launched in early 2007.

We have improved the way we welcome new employees. The Right Start programme implemented in 2006 begins before an employee joins and takes them through their first nine months

of service. We set minimum global standards and track its success quarterly for every country and business. 'Day One Readiness' is a key measure to assess if an employee has everything they need to do their job on their first day. Readiness has improved by nine per cent and employee turnover within the first three months has reduced by two per cent, with significant improvements in our key markets of China, India and Korea.

Our International Graduate Programme selects, nurtures and challenges our future leaders. The graduate programme is one of the most international in the world, celebrating original thought and diversity – the qualities we look for in future leaders. We had over 70,000 graduate applications in 2006 compared with over 50,000 in 2005. We have increased our intake of International Graduates by over five times over the last five years, increasing 37 per cent in 2006. We will maintain our focus on recruiting a pipeline of future leaders of the Group, with recruitment for 2007 increasing by a further 26 per cent. We have begun to recruit MBAs on a global basis and over 150 candidates are currently participating in the selection process.

Diversity through inclusion

Our markets, customer groups and talent pools are changing – as is the Group in its size and reach. Standard Chartered's success depends on its ability to manage these changes, and our approach



» Leading the way in Korea

Kim Seon-Joo is SC First Bank's first female executive and the most senior in Korean financial services. As Executive Vice President and Head of Shared Distribution she is leading the progress of women at SC First Bank. We also promoted a 32-year-old to become Korea's youngest bank branch manager. These appointments help us to be an employer of choice in Korea and attract the best talent.



» Meet a D&I Champion

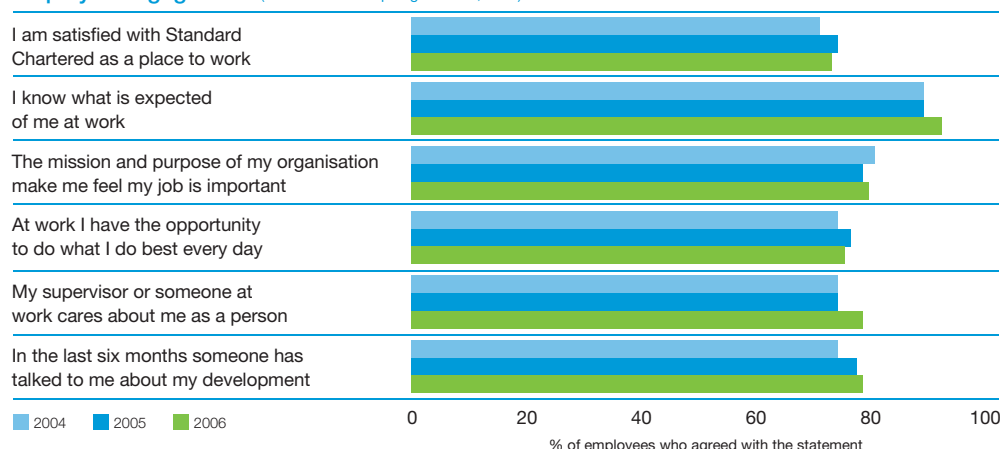
In addition to her busy day job as Value Centre General Manager of Unsecured Lending, Naana Abban is Ghana's Diversity and Inclusion Champion. With the help of her D&I Council, Naana has improved awareness of D&I in Ghana.



» Living the values

Henry and Joseph, our Seeing is Believing ambassadors, travel the world and live the Bank's values through teamwork and partnership. Living the values is also expected of all Standard Chartered employees. At the beginning of the year, each employee has a discussion with their manager about how they will live the Group's values – Responsive, Trustworthy, Creative, International, Courageous – in their role. In 2006, 98% of employees received a rating according to how well they had lived the values.

Employee engagement (Source: The Gallup Organization, 2006)



to Diversity and Inclusion (D&I) is integral to our journey. D&I lies at the heart of our values and is already a natural strength. Our commitment is simple – to get the best out of the broadest spectrum of people. We focus on inclusion to ensure that each individual feels valued for what they bring to the Group. D&I is a long-term priority for the Group and we all have a shared responsibility to foster an inclusive culture.

We are already a diverse organisation. Our employees represent over 100 nationalities globally and over 50 within our most senior 500 employees. Overall female representation is broadly equal to male, and 16 per cent of our senior managers are women. We continue to focus on increasing this proportion. The Group's initial focus is on three strands of diversity – gender, nationality and disability, with particular reference to visual impairment.

Creating an inclusive culture

Over 300 people are involved in driving D&I across the Group. Jaspal Bindra, General Manager, South East and South Asia, was appointed Chairman of our D&I Council in early 2006, reflecting the strong support and sponsorship of D&I from our Group Management Committee. We also created a D&I Ambassador role for a number of senior employees with the sole purpose of raising awareness of D&I across our business.

Many D&I issues are market specific. To address this, we appointed 50 D&I Champions across 48 markets and territories and established 28 Country Councils to support the Champions. Our market-specific approach identifies, tracks and resolves issues locally rather than adopting a one-size-fits-all approach. In 2006 we listened to employees to determine local issues through a review and action-planning process. In 2007 we will implement the plans and monitor our progress.

We also want to continue to improve the way we work by creating a more flexible working environment so that employees can balance their work and personal commitments, maximise their potential and perform to their best.

Building winning teams

We have measured employee engagement globally for six years with a voluntary participation rate of 97 per cent in 2006. We continue to see an increase in engagement each year. SC First Bank completed the survey for the first time in 2005 and recorded 98 per cent participation in that year and in 2006. Team-specific data helps each team to design an action plan to enhance engagement.

Managers play an important role in increasing employee engagement. In 2007, we will launch the Great Manager

Programme, and throughout the year over 9,000 managers will share and learn from ideas, stories and best practice to improve how they manage and drive engagement in their teams.

Managing our talent

To build our capability to attract and develop people, we have a global, systematic approach to talent management. In 2006 we have focused on identifying and developing talent at a junior level to build the skills we need for the future. We have increased the number of less experienced high-potential employees by 47 per cent and held one-day career development workshops for high-potential employees across the Group. Only three per cent of our leavers are identified as high performers or high potential.

We also leverage our global footprint to provide international experience at all levels. We currently have over 700 employees on international assignment. SC First Bank employees in Korea took up more than 50 international assignments in 2006.

Coaching for high performance

We believe the key to high performance is ensuring employees know what is expected of them. In 2006, 98 per cent of employees had both a recorded performance rating and talent classification through our bi-annual performance review process. Annual performance survey results show that 94 per cent of employees had a discussion with their manager about their performance in 2006 and 95 per cent understand how their objectives will contribute to the continued success of the Group.

We reward our employees competitively for their contribution to our performance. As part of our total reward philosophy, we offer employees the opportunity to share in the Group's success. In 2006, over 3,000 employees were awarded shares as part of their compensation.

Resourcing, D&I, employee engagement and managing talent remain key elements of our drive for sustainable performance.



To find out more about our approach to people management and career opportunities at Standard Chartered, please log on to www.standardchartered.com/sustainability/people

People

Our dynamic, international and talented workforce is one of our core strengths, and diversity lies at the heart of our values



►► Early engagement strategy at SC First Bank

Creating a unified culture between two very different organisations was one of the biggest challenges at SC First Bank. Highly innovative sessions using large pictorial maps were used to communicate SC First Bank's vision and the part all employees play in it. SC First Bank also sought employees' opinions on how to achieve its vision and received over 5,000 suggestions that have been an invaluable source of ideas to increase performance. Harnessing the energy and enthusiasm of employees has proved a vitally important step in creating shared clarity and collaborative working. This process will become a standard component of future integrations.

►► Fusion in Pakistan

In Pakistan we have launched Fusion, an innovative and interactive workshop designed to unite the employees of Standard Chartered and the recently acquired Union Bank. Fusion involved over 2,500 people in building a sense of identity and commitment and defining the future. This was the largest in-house employee engagement effort we had undertaken. Over 95% of participants found the Fusion workshops effective and satisfying.

►► Educational support

In United Arab Emirates (UAE) we have launched the Al Tahadi Educational Support Programme which provides sponsorship to selected UAE national students. The programme gives access to opportunities across the Group. We have already recruited 137 graduates this way. We are dedicated to developing the experience and expertise of our employees in UAE as an essential part of our commitment to the local community and business.

on the move▶▶▶▶▶

- ▶▶ Almost 60,000 employees
- ▶▶ Over 100 nationalities, over 50 within senior management
- ▶▶ 16% net growth in employees



▶▶ Driving work-life balance

In Hong Kong we are leading the way as one of the first organisations to adopt a five-day working week. This sends a clear message to our employees and the public that we are strong advocates for improving the work-life balance of our employees. This is in line with our aim to create a more flexible working environment so that our employees can balance their work and personal commitments and achieve their potential to perform to their best at work.

▶▶ International partnership in action

We launched an International Partnership Programme in 2006 to encourage SC First Bank employees to live our International value – either through interacting with other employees across the network or working in a different country. Fifty-eight employees have taken the opportunity to work in one of 10 host countries, with a further 300 attending training or assignments in other markets.

▶▶ Enabling opportunities

Scope International, a wholly owned subsidiary of the Group in India, has maintained strong relations with the local Ability Foundation charity which works to promote opportunities for people with disabilities. In addition to hosting workshops and events with the charity, Scope International currently employs 15 people from Ability Foundation.

Social contribution, environmental protection, economic development and good governance are fundamental to ensuring our business is sustainable

In previous annual reports we have discussed corporate responsibility – doing business in an ethical way as a business imperative. The language and substance of corporate responsibility are changing, reflecting the need for organisations to take a long-term view of the consequences of their actions to build a sustainable business.

In 2006 we articulated our Building a Sustainable Business strategy. This is a response to a rapidly changing world, multiple stakeholder needs and global challenges such as climate change and poverty.

Our social contribution, environmental protection, contributing to economic development and good governance are fundamental to ensuring the sustainability of our business.

In 2006 we continued to work with key stakeholders, including governments, socially responsible investors and not-for-profit organisations and non-governmental organisations (NGOs). These relationships have helped focus our attention on where we can make the greatest difference.

Sustainable business priorities



Sustainable lending

Our business activity can have both a positive and negative impact on communities, economies and the environment. We want to be a force for good to promote change in our markets. Identifying and managing sustainability considerations in lending are important parts of our risk evaluation.

In 2006 we reviewed how we assess social and environmental risk associated with sectors such as forestry, shipbreaking, palm oil and mining. In 2007 we will adopt formal policies based on the results and provide closer guidance for relationship managers.

The Equator Principles are guidelines adopted by financial institutions to address environmental and social concerns in major infrastructure projects. We helped prepare the revised Equator Principles and renewed our endorsement of them in July 2006. The Group approved 20 Equator Principle projects in 2006 compared with 18 in 2005.

Training and raising awareness of potential impacts of our lending remained a priority in 2006. We trained 1,500 employees as part of the sustainable lending training programme and 280 graduates took part in social, environmental and economic training.

Tackling financial crime

Corruption and financial crime outpace international efforts to fight them, with annual estimates for the amount of money laundered exceeding \$500 billion. These crimes harm economic growth and damage communities by fuelling poverty and inequality. In 2006 we upgraded our anti-money laundering systems in the UK and the US and we will extend the upgrade to other markets in 2007.

Increasing access to financial services

In 2006, 80 per cent of the world's population did not have access to credit or basic financial services. Limited access to financial services can be a root cause of poverty, conflict and damage to the environment. By offering services to groups who are financially excluded we can support sustainable economic growth. A key priority is microfinance – small loans to people starting or building a business.

Our involvement in the microfinance sector is a commercially sustainable initiative. We have developed 35 strategic alliances with microfinance institutions across Africa and Asia. The Group recently renewed a commitment to microfinance at the Clinton Global Initiative by pledging to channel \$500 million over five years to microfinance institutions in Africa and Asia.



»Commitment to sustainability

Standard Chartered joined the Global Roundtable on Sustainable Palm Oil in Singapore, reflecting our commitment to ensuring that our business with this sector is done in the most responsible manner.



»Extending Living with HIV

We have made a commitment to extend our Living with HIV peer education workshops to reach one million people over the next three years. We will achieve this by strengthening our existing partnerships, including those with customers, suppliers and NGOs.



»Seeing is Believing – the next phase

So far, we have raised enough money to contribute to one million sight restorations in 10 countries. We have now set a new target to raise \$10 million by World Sight Day 2010 to make a difference to the lives of 10 million people across 20 countries.

Responsible selling and marketing

Competition can cause selling and marketing of products to become too aggressive, eroding trust between companies and customers. We aim for our marketing and selling to reflect our core values of being Trustworthy, Responsive and Courageous to protect our reputation and build a sustainable business.

Protecting the environment

Many of our markets are subject to changing environmental conditions. Examples include air pollution in Hong Kong, water quality in China and flooding in India. Our Global Environmental Management System has been rolled out to 43 eligible offices, up from 36 in 2005, and has increased its employee coverage by 36 per cent.

We have grown our renewable energy financing and advisory business. In 2006 this included a €50 million investment in the Climate Change Capital Fund, to which we are an adviser.

Treatment of employees

We are working to create an inclusive workplace in which employees can develop as individuals and teams. Ensuring the wellbeing and security of employees and increasing understanding of HIV/AIDS are examples of how we can build a healthy, informed workforce.

Community investment

In 2006 our community contribution was \$21.2 million. This includes cash, employee time, management costs and gifts in kind. The figure was slightly below the \$22.4 million we recorded for 2005 but the difference was due to the introduction of a more rigorous process for tracking employee time.

We invest in initiatives aligned with our core business so that the Group, its employees and communities gain maximum benefit. We aim to lead by utilising our core expertise, networks and resources to help communities develop and economies grow.

Living with HIV is our campaign to help our employees and wider communities prevent and deal with HIV/AIDS. In 2006 we signed the Clinton Global Initiative pledge to educate one million people about HIV/AIDS by 2009.

Seeing is Believing, our programme to help eradicate avoidable blindness, achieved its first target in 2005 a year ahead of schedule by raising funds for one million sight restorations. The second phase of Seeing is Believing was launched in 2006. With our partners we now want to restore the sight or prevent blindness for 10 million people across 20 countries by 2010.

In 2006 we announced that all employees would be able to take two days a year for community volunteering. Over 1,000 employees took part in the programme in 2006 and we will ensure many more take the opportunity in 2007.

We launched two new programmes with resonance in our markets. GOAL is a project to empower women through sport to fulfil their potential. We also started Nets for Life with a \$1 million commitment to help distribute one million malaria nets in Africa.

More information

The Building a Sustainable Business strategy will guide the Group's programme of work for the next three years and will provide a reference point for measuring and reporting success. A copy of the strategy is available on the recently re-launched sustainability section of our website.

We have also published our third review on sustainable development which builds on previous corporate responsibility and environmental reports. The review reflects the evolution of the company's corporate responsibility programmes into sustainable business practices. The review details our progress against the seven sustainable business priorities outlined above. We are committed to building a sustainable business.



Please log on to the recently re-launched sustainability section of our website: www.standardchartered.com/sustainability for a copy of the Building a Sustainable Business strategy and Sustainability Review 2006.

Sustaina

Our long-term success depends on our ability to deliver a sustainable business in which our skills and talents turn issues into opportunities



► Empowering women

GOAL, Standard Chartered's women's empowerment project, was launched in Delhi, India. This programme brings together communities, non-governmental organisations and local sporting bodies as well as schools and colleges in an effort to empower young women to become leaders through sports and leadership courses. Our employees use their core skills to contribute to the success of GOAL.

► Building a sustainable business

Standard Chartered believes that companies have far-reaching impacts upon the economy, the environment and the communities where they operate. We believe in building a sustainable business which manages these impacts through successful partnerships with governments, suppliers, customers, employees and regulators. We look at our business from our stakeholders' perspective. A shared agenda will create an opportunity to enhance our reputation as The Right Partner and to build our business.

► Signing up for clean air

In line with our general commitment to the environment, we have signed up to the Hong Kong General Chamber of Commerce Clean Air Charter. Signatories adhere to global standards for air emissions and publish information annually on energy and fuel use and air-pollutant emissions. They also pledge to adopt energy-efficient measures in their operations.

bility in action ▶▶



▶▶ Employee volunteering

In 2006 we launched the foundation level of our employee volunteering programme which allows each employee an additional two days' leave each year for voluntary work. We also introduced a pilot programme in selected countries to reward employees who demonstrate outstanding business performance with an additional five days' leave to spend on a community project that ties in with our community strategy.

▶▶ Nets for Life

Standard Chartered's Nets for Life programme is an Africa-wide malaria eradication and education initiative supported through a partnership with Episcopal Relief and Development. It aims to distribute one million long-lasting insecticide-treated nets across the continent by the end of 2008. It is supported by an on-going malaria-prevention education programme. Zambia piloted the project, which will eventually be rolled out across 16 countries in Sub-Saharan Africa.

▶▶ Access to finance

Our involvement in the microfinance sector is a commercially sustainable initiative to provide financial services to stimulate grassroots enterprise. We now have strategic alliances with 35 microfinance institutions in 10 countries across Africa and Asia to channel funds, enhance microfinance credit and build microfinance capabilities. In September 2006 we pledged to establish a \$500 million microfinance facility under the Clinton Global Initiative.

Financial Review

Group Summary

The Group has delivered another strong performance in the year ended 31 December 2006. Profit before taxation of \$3,178 million was up 19 per cent compared to 2005, with income up 26 per cent and a normalised cost income ratio of 55.2 per cent

compared to 54.5 per cent in 2005. Normalised earnings per share has increased by 11 per cent to 170.7 cents. (Refer to note 12 on page 94 for the details of basic and diluted earnings per share).

Operating Income and Profit

	2006 \$million	2005 \$million	Increase/ (decrease) %
Net interest income	5,328	4,335	23
Fees and commissions income, net	1,881	1,495	26
Net trading income	920	769	20
Other operating income	491	262	87
	3,292	2,526	30
Operating income	8,620	6,861	26
Operating expenses	(4,796)	(3,811)	26
Operating profit before impairment losses and taxation	3,824	3,050	25
Impairment losses on loans and advances and other credit risk provisions	(629)	(319)	97
Other impairment	(15)	(50)	(70)
Loss from associates	(2)	—	—
Profit before taxation	3,178	2,681	19

See Group Structure on page 27 for analysis of result with Acquisitions, Korea and Underlying business shown separately.

Operating income grew \$1,759 million, or 26 per cent, to \$8,620 million. Korea and other acquisitions contributed \$712 million or 10 per cent. As in 2005, there was double-digit income growth in both Consumer Banking and Wholesale Banking with Consumer Banking increasing 23 per cent and Wholesale Banking 28 per cent. In both businesses income growth was across a broad range of geographies, products and segments.

Net interest income grew \$993 million, or 23 per cent to \$5,328 million. Korea and other acquisitions contributed \$416 million or 10 per cent. There was a strong increase in deposit balances in most geographies. Net interest margins remained flat compared to 2005 with increases in deposit spreads offset by reduced margins in the main mortgage markets.

Net fees and commissions income grew \$386 million, or 26 per cent, to \$1,881 million. Korea and other acquisitions contributed \$148 million or 10 per cent. The growth was driven by higher volumes in wealth management, cash management and global markets products across all markets.

Net trading income grew \$151 million, or 20 per cent, to \$920 million. Korea and other acquisitions contributed \$7 million or one per cent. Income was driven higher by increased foreign exchange dealing by both Consumer and Wholesale Banking customers. Good positioning, increased customer flows and enhanced product capabilities further supported income growth.

Other operating income grew \$229 million, or 87 per cent, to \$491 million. Korea and other acquisitions contributed \$141 million or 54 per cent. This increase primarily reflects realised gains in the Group's private equity business, and better than expected performance of SME assets in Korea that were fair valued at acquisition.

Operating expenses grew \$985 million, or 26 per cent, to \$4,796 million. Korea and other acquisitions contributed \$431 million or 11 per cent. Overall expense growth was broadly in line with income growth. Both businesses continued to invest in infrastructure and technology to expand in fast growing markets and to support future income growth. Consumer Banking also invested in its distribution capability whilst Wholesale Banking continued to invest in product and staff capabilities.

Operating profit before impairment losses and taxation increased by \$774 million, or 25 per cent, to \$3,824 million. Korea and other acquisitions contributed \$281 million or nine per cent.

Impairment losses on loans and advances and other credit risk provisions ("loan impairment") grew \$310 million, or 97 per cent, to \$629 million. Korea and other acquisitions contributed \$53 million or 17 per cent. The credit environment has generally remained benign through 2006 with the increase in impairment almost wholly attributable to Consumer Banking, where impairment rose \$296 million, or 70 per cent, to \$721 million. This was primarily due to the unsecured lending charge in Taiwan which largely arose during the first half of the year. Wholesale Banking was again in a net recovery position, driven by a significant decline in new provisions offset by a reduction in recoveries, although this was at a slightly reduced level to 2005, down \$14 million, or 13 per cent, to \$92 million.

Profit before taxation increased \$497 million, or 19 per cent to \$3,178 million. Korea contributed \$190 million or seven per cent and other acquisitions contributed \$38 million, or one per cent, of this increase.

Group Structure

There have been a number of changes to the Group's structure which impact the presentation of the financial results during 2006 and 2005.

On 5 September 2006 the Group acquired 95.4 per cent of Union Bank Limited ("Union"), a provider of Wholesale and Retail Banking products in Pakistan. On 30 December 2006 the assets and business of Union and the Standard Chartered Bank branch in Pakistan were amalgamated into Standard Chartered Bank (Pakistan) Limited. The Group owned 99.0 per cent of the combined entity at 31 December 2006.

On 19 October 2006 the Group acquired a controlling interest in Hsinchu International Bank ("HIB"), a provider of Wholesale and Retail Banking products in Taiwan. The acquisition was achieved through a successful tender offer. The Group owned 96.2 per cent of HIB at 31 December 2006.

On 5 September 2006 the Group acquired a further 12.96 per cent in PT Permata Bank Tbk ("Permata"), a provider of Wholesale and Retail Banking products in Indonesia. The

Group owned 44.51 per cent of Permata at 31 December 2006. The results of Union, HIB and the incremental stake in Permata are shown together as "Acquisitions" and referred to in the discussion of results as "other acquisitions". The Group's stake in Permata is accounted for as a joint venture and therefore proportionately consolidated.

The Group has owned Standard Chartered First Bank Korea Limited ("SCFB") since 15 April 2005, and on 28 November 2005 the assets and businesses of the Standard Chartered Bank branch in Korea were transferred to SCFB. The impact of the post acquisition results of SCFB in the 2005 results, together with the transfer of the branch, affect the comparability of the results for 2006 compared to 2005. The 2005 results for "Korea" reflect a full year of the Standard Chartered Bank branch together with the post acquisition results of SCFB.

To facilitate a meaningful review of the Group's results, the table below segments the Group's results into "Acquisitions", "Korea" and the rest of the Group, which are shown as "Underlying".

	2006				2005		
	Acquisitions \$million	Korea* \$million	Underlying (excluding Korea and acquisitions) \$million	As reported \$million	Korea* \$million	Underlying (excluding Korea) \$million	As reported \$million
Net interest income	94	1,147	4,087	5,328	825	3,510	4,335
Fees and commissions income, net	41	152	1,688	1,881	45	1,450	1,495
Net trading income	6	64	850	920	63	706	769
Other operating income	6	159	326	491	24	238	262
	53	375	2,864	3,292	132	2,394	2,526
Operating income	147	1,522	6,951	8,620	957	5,904	6,861
Operating expenses	(91)	(972)	(3,733)	(4,796)	(632)	(3,179)	(3,811)
Operating profit before impairment losses and taxation	56	550	3,218	3,824	325	2,725	3,050
Impairment losses on loans and advances and other credit risk provisions	(18)	(96)	(515)	(629)	(61)	(258)	(319)
Other impairment	–	–	(15)	(15)	–	(50)	(50)
Loss from associates	–	–	(2)	(2)	–	–	–
Profit before taxation	38	454	2,686	3,178	264	2,417	2,681

* Reported on a segmental basis.

Financial Review continued

Consumer Banking

The following tables provide an analysis of operating profit by geographic segment for Consumer Banking:

2006											
Asia Pacific								Americas UK & Group Head Office \$million		Consumer Banking Total \$million	
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Underlying \$million		
Operating Income	1,019	367	221	1,146	729	323	545	257	77	3,415	4,684
Expenses	(428)	(142)	(101)	(799)	(445)	(201)	(280)	(194)	(51)	(1,760)	(2,641)
Loan impairment	(53)	(36)	(36)	(88)	(390)	(46)	(61)	(12)	1	(616)	(721)
Operating profit/(loss)	538	189	84	259	(106)	76	204	51	27	1,039	1,322

2005											
Asia Pacific								Americas UK & Group Head Office \$million		Consumer Banking Total \$million	
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Underlying \$million		
Operating Income*	976	324	210	697	611	286	379	258	61	3,105	3,802
Expenses	(415)	(126)	(95)	(505)	(342)	(179)	(182)	(205)	(52)	(1,596)	(2,101)
Loan impairment	(34)	(30)	(37)	(56)	(166)	(56)	(33)	(13)	–	(369)	(425)
Other impairment	–	–	–	–	–	–	–	(3)	–	(3)	(3)
Operating profit	527	168	78	136	103	51	164	37	9	1,137	1,273

* Restated. See note 2 on page 87.

An analysis of Consumer Banking income by product is set out below:

	2006 Total \$million	2005* Total \$million
Operating Income by product		
Cards, Personal Loans and Unsecured Lending	1,799	1,528
Wealth Management and Deposits	1,938	1,442
Mortgages and Auto Finance	780	758
Other	167	74
Total operating income	4,684	3,802

* Restated. See note 2 on page 87.

Consumer Banking income grew \$882 million, or 23 per cent, to \$4,684 million. Korea and other acquisitions contributed \$572 million, or 15 per cent. Organic income growth in the second half of 2006 over the same period last year was 14 per cent. The increased focus of the business on Wealth Management products and the SME segment has delivered business growth in most markets. Over 230 products were rolled out by Wealth Management across the network in 2006 compared to 120 in 2005. There was good income growth across most geographies, with over ten countries now contributing more than \$100 million of income. The markets of Singapore and India have both grown revenues at 13 per cent. MESA continued to increase its rate of income growth, with income growing at 44 per cent in 2006, compared to 28 per cent in 2005.

Expenses grew \$540 million, or 26 per cent, to \$2,641 million. Korea and other acquisitions contributed \$376 million, or 18 per cent. The business slowed cost growth in the first half of the year to mitigate the impact of the Taiwan credit issue. As management action contained the Taiwan issue, so investment spend was almost doubled in the second half of 2006. Expenditure was targeted at customer facing areas such as branches and the sales force. 25 new branches were added together with 40 new consumer finance branches, and 107 ATMs were installed. 2006 also saw significant expenditure on the new private banking

offering with a new brand, premises in Singapore and the acquisition of key staff.

Impairment increased \$296 million, or 70 per cent, to \$721 million. Korea and other acquisitions contributed \$49 million, or 11 per cent. Excluding Taiwan, the increase was \$146 million, or 45 per cent, to \$473 million. The first half charge for the unsecured portfolio in Taiwan was \$203 million, up from \$75 million in the second half of 2005. In the second half of 2006 Taiwan impairment charge of \$45 million was down sharply from the first half, as the credit situation trended towards more normal levels. The increase in impairment outside Taiwan reflects the recent business emphasis on unsecured lending and is commensurate with the higher risk and reward levels. The credit environment in Thailand still warrants caution, although the environment in Indonesia has improved from the first half.

Operating profit grew \$49 million, or four per cent, to \$1,322 million.

Hong Kong delivered income growth of \$43 million, or four per cent over 2005. Wealth Management income increased 18 per cent with innovative product launches, such as Marathon Savings and My Dream account, driving growth. The SME segment grew income by 41 per cent as new product launches and a 36 per cent increase in the sales force helped grow the business. Other

products, such as the new HIBOR based mortgage offering, helped bolster income. Expense growth of \$13 million, or three per cent, was in line with income growth and reflected investment in the sales and distribution capability, as well as enhancements to ATMs and call centres. Impairment increased by \$19 million, or 56 per cent, to \$53 million. The increase was due to lower recoveries and increased impairment in line with business volume growth. Operating profit was up two per cent to \$538 million. Customer liabilities grew over 13 per cent, whilst assets reduced four per cent as mortgage balances reduced in a strongly competitive market.

Singapore grew income by \$43 million, or 13 per cent, to \$367 million, a much improved performance compared to 2005. Wealth Management grew strongly with new products such as Xtrasaver and Family Link supporting the increase in customer liabilities by 30 per cent. Unit trust sales increased over 40 per cent driving up fee income. Within SME new product launches, such as SME Express, helped deliver strong growth in income. Mortgage income fell 13 per cent, as improved margins were more than offset by a competitive environment and repricing actions by competitors, which increased attrition and reduced customer assets by 11 per cent. Expenses grew \$16 million, or 13 per cent, to \$142 million reflecting significant investment in new products and the forthcoming Private Bank launch. Impairment was up \$6 million, or 20 per cent, to \$36 million, reflecting lower releases albeit the credit environment remained benign. The gains in income drove operating profit up \$21 million, or 13 per cent, to \$189 million.

Malaysia grew income by \$11 million, or five per cent, to \$221 million. Wealth Management grew strongly, with growth in customer liabilities of 22 per cent and product launches, such as Premium Currency Investment and FlexiFD, driving income growth. Unsecured lending also grew as enhanced service and new products attracted customers. Expenses increased by \$6 million, or six per cent, to \$101 million as the business invested in its distribution channels with five new branches launched in the second half of the year and a further three branches upgraded. There was also investment in customer service initiatives, such as E-statements. Impairment remained flat year on year at \$36 million, as the credit environment remained benign. Operating profit increased \$6 million, or eight per cent.

Korea includes SCFB which was acquired on 15 April 2005. As a result the comparatives reflect in large part the comparison of 12 months ownership in 2006 versus eight and a half months in 2005. Korea income has grown \$449 million, or 64 per cent, to \$1,146 million. This includes \$106 million of recoveries in respect of assets that had been fair valued on acquisition. Growth has been driven by Wealth Management products and the SME segment. During 2006 over 100 new Wealth Management products were introduced to the market place and over 400,000 new customer accounts added. SME growth was driven by record Business Instalment Loan sales and new products such as Business Plus. Expenses increased \$294 million, or 58 per cent, to \$799 million. This reflects investment in business infrastructure, with investment in four new consumer finance centres and three priority banking centres and in ATM upgrades. Impairment increased \$32 million, or 57 per cent. This increase was in line with the business' focus and growth in unsecured lending and a rise in personal bankruptcy. The increase was mitigated by tighter credit control measures and dedicated collection teams to address the impact of rising personal bankruptcy. Operating profit was up 90 per cent to \$259 million.

Other Asia Pacific grew income by \$118 million, or 19 per cent, to \$729 million. This growth was constrained by Taiwan where contraction in the unsecured lending business reduced income

by 27 per cent. Growth was particularly strong in China, where income more than doubled as mortgage balances increased 66 per cent and the SME segment doubled revenue on the back of strong cash sales. Expenses grew \$103 million, or 30 per cent, to \$445 million. Around half of the increase in expenses came in China as investment in 12 new branches and 20 ATMs drove up costs. As a result of the reduced income in Taiwan, operating profit before impairment only increased by \$15 million, or six per cent, to \$284 million. Impairment increased by \$224 million, or 135 per cent, to \$390 million mainly due to the unsecured impairment charge in Taiwan. The operating profit reported in 2005 of \$103 million deteriorated to an operating loss of \$106 million in 2006. Acquisitions contributed an operating profit of \$20 million.

India grew income by \$37 million, or 13 per cent, to \$323 million. Income from the SME segment grew strongly, driven by Business Instalment Loans, new products such as SME Trade, and the addition of six distribution locations focused on SME business during the year. Wealth management grew strongly with good growth in investment services and insurance sales, and customer liabilities growing 16 per cent. Mortgage and auto income reduced eight per cent as assets declined in a competitive market although there were some benefits as the bank took the opportunity to exit unprofitable business. Personal loans grew strongly with unsecured lending balances increasing 30 per cent, with products such as Smart Credit driving growth. Expenses increased \$22 million, or 12 per cent, as the business invested in distribution capabilities opening 30 new consumer finance centres, 18 ATMs and a new branch in Mumbai. Impairment reduced by \$10 million or 18 per cent, reflecting the impact of a significant one time legal recovery in the first half of 2006. Operating profit increased \$25 million, or 49 per cent, to \$76 million.

MESA grew income by \$166 million, or 44 per cent, to \$545 million. Political difficulties in Lebanon, Sri Lanka and Bangladesh made trading conditions difficult in these countries, although this was offset by the booming economies of the Gulf states. Growth came from SME, Wealth Management and unsecured lending. The SME segment progressed with strong asset growth led by the Business Instalment Loan, and customer liability accounts which more than tripled in volume as the business targeted growth in current and savings accounts. Wealth Management income increased sales of bancassurance products and foreign exchange activities grew. Customer liabilities increased by 13 per cent as new savings products, such as Islamic savings were launched. The unsecured business grew with the launch of new products such as Personal Instalment loans which helped build customer assets. In MESA overall, assets increased 20 per cent and customer liabilities rose by 21 per cent. Expenses increased \$98 million, or 54 per cent, to \$280 million, as the business invested to support the strong income growth. Investment was primarily in the areas of sales and distribution, with 22 new ATMs in UAE and an expanded sales force. Impairment increased \$28 million, or 85 per cent, in line with business volume growth. Operating profit increased \$40 million, or 24 per cent, to \$204 million. Acquisitions contributed \$4 million to operating profit.

Africa income was broadly flat year on year at \$257 million although excluding Zimbabwe, income grew nine per cent. Income increased across a broad range of geographies particularly in Nigeria 62 per cent, Zambia 59 per cent and Uganda 11 per cent, and there was double-digit asset growth in both unsecured lending and the SME segment with a sustained sales drive and new products such as Express Trade. Wealth Management introduced further new products, such as the Safari Account and the Junior Savings account, which helped to grow

customer liabilities 14 per cent. Expenses decreased by \$11 million, or five per cent, to \$194 million although excluding Zimbabwe there was a five per cent increase. The business continued to invest, with a new branch in both Nigeria and Uganda and new core banking systems in South Africa and Nigeria. The South African business was restructured which delivered significant cost improvements. Impairment remained flat at \$12 million with little change seen to the credit environment. Operating profit increased \$14 million, or 38 per cent, to \$51 million.

The Americas, UK and Group Head Office income grew by \$16 million or 26 per cent, to \$77 million. This was due primarily to improvements in the Jersey business where deposit volumes were up five per cent and widening margins drove revenue higher. Expenses and impairment remained flat at 2005 levels. Operating profit tripled from \$9 million to \$27 million.

Consumer Banking product performance

Cards and Personal Loans delivered a \$271 million, or 18 per cent, increase in income to \$1,799 million. The contraction in Taiwan held back growth in this product area. In other geographies new product launches, such as CashOne, Business Platinum Card and Titanium Card helped grow the business, particularly in MESA. Personal loans also grew strongly in 2006.

In Wealth Management, product innovation and an aggressive drive to capture customer deposits has helped to increase income by \$496 million, or 34 per cent, to \$1,938 million. Product development and deployment has accelerated in 2006 bringing nearly double the number of new products to market than in previous years. Product sophistication continues to grow strongly, particularly in the area of investment and unit trust products. Strong geographic contributors include MESA, Singapore, Malaysia, India and Hong Kong. Liabilities growth has been double-digit in 2006.

Mortgage income continued to be under pressure in 2006. Rising interest rates and intense competition have served to keep margins under pressure in some markets, particularly Hong Kong, Singapore and India. Income increased by \$22 million or three per cent, to \$780 million. Product development has helped to stem the decrease in some markets such as Hong Kong, where the ground breaking HIBOR mortgage now forms a significant part of new sales and has been widely imitated in the market place. In other markets, such as Singapore, repricing has helped improve margins and unprofitable business has been exited.

Wholesale Banking

The following tables provide an analysis of operating profit by geographic segment for Wholesale Banking:

	2006										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Underlying \$million	Wholesale Banking Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million						
Operating Income	596	255	150	380	655	494	525	383	485	3,519	3,923
Expenses	(292)	(152)	(63)	(173)	(336)	(174)	(234)	(219)	(508)	(1,969)	(2,151)
Loan impairment	46	(3)	7	(8)	6	7	8	(14)	43	101	92
Other impairment	–	–	–	–	(3)	–	–	(9)	(3)	(15)	(15)
Operating profit	350	100	94	199	322	327	299	141	17	1,636	1,849

	2005										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Underlying \$million	Wholesale Banking Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million						
Operating Income*	508	190	125	260	446	307	433	295	495	2,799	3,059
Expenses	(234)	(120)	(55)	(127)	(268)	(127)	(157)	(194)	(428)	(1,583)	(1,710)
Loan impairment	(83)	(13)	7	(5)	117	6	42	(30)	65	111	106
Other impairment	(1)	–	–	–	–	1	–	(8)	(3)	(11)	(11)
Operating profit	190	57	77	128	295	187	318	63	129	1,316	1,444

* Restated. See note 2 on page 87.

An analysis of Wholesale Banking income by product is set out below:

	2006 Total \$million	*2005 Total \$million
Operating Income by product		
Trade and Lending	1,006	880
Global Markets**	1,895	1,437
Cash Management and Custody	1,022	742
Total operating income	3,923	3,059

* Restated. See note 2 on page 87.

** Global Markets comprises the following businesses: foreign exchange and derivatives, private equity, debt capital markets, corporate finance and asset and liability management "ALM".

Wholesale Banking income grew \$864 million, or 28 per cent, to \$3,923 million. Korea and other acquisitions contributed \$144 million or five per cent. Organic income growth in the second half of 2006 was 28 per cent over the same period last year. Growth was across a broad range of products and geographies as the client-led strategy continued to deliver sustained growth. Double-digit income growth was delivered in nearly all markets with India, Hong Kong and Singapore advancing strongly. Client income continues to comprise the most significant part of the business' income. Other trading income has benefited from the absence of the Zimbabwe hyperinflation charge taken in 2005 and a strong performance in the private equity business.

Expenses increased \$441 million or 26 per cent to \$2,151 million. Korea and other acquisitions contributed \$55 million or three per cent. Investment has been directed towards expanding client coverage, extending product reach, developing the franchise, upgrading system architecture and in regulatory compliance and control. Staff costs are increasingly directed at variable compensation with fixed remuneration forming a decreasing proportion of personnel costs. On a geographic basis expenditure has been targeted at strategically important markets such as China and India.

Loan recoveries decreased from \$106 million in 2005 to \$92 million in 2006, although impairment charges from Korea and other acquisitions increased \$4 million. The impairment charge before recoveries reduced year on year reflecting a continuing benign credit environment and the Group's traditional strong credit discipline. Operating profit increased \$405 million, or 28 per cent, to \$1,849 million.

Growth in Risk Weighted Assets and Contingents ("RIWAC") was 26 per cent, at the same overall pace as income growth and has been focused on strategically important markets. Distribution activity has doubled in 2006 with innovative products, such as collateralised loan obligations, helping to further manage RIWAC.

When looking at the performance of Wholesale Banking on a geographic basis it is important to note that it is essentially a network business primarily managed on a product and customer segment basis.

Hong Kong income grew \$88 million, or 17 per cent, to \$596 million. Income growth was strong in Cash Management products that benefited from increased balances and improved margins in a rising interest rate environment. Global Markets income grew strongly with increased customer deal volumes, particularly in

derivatives and foreign exchange reflecting increased product capabilities in these areas. Expenses increased \$58 million, or 25 per cent, to \$292 million. The business invested in sales and product capabilities to support the fast growing Global Markets business and specialised client services. Impairment decreased from a charge of \$83 million in 2005 to a net recovery of \$46 million in 2006 as a result of significant recoveries and effective credit control with no significant new provisions. Operating profit increased \$160 million, or 84 per cent, to \$350 million.

Singapore income grew \$65 million, or 34 per cent, to \$255 million. Income grew predominantly from the client based business driven by product innovation and specialisation, with particularly strong growth in foreign exchange and derivatives. Cash Management performed well, benefiting from an enhanced product range, together with excess market liquidity and higher interest rates. There was good growth across all customer segments especially financial institutions and local corporates. Expenses increased \$32 million, or 27 per cent, to \$152 million as the business invested in new products and sales capabilities. Impairment decreased from \$13 million in 2005 to \$3 million in 2006. This was due to a continuing benign credit environment, although recoveries slowed as the stock of distressed assets continued to fall. Operating profit increased \$43 million, or 75 per cent, to \$100 million.

Malaysia income grew \$25 million, or 20 per cent, to \$150 million. There was broad based growth across all products with foreign exchange and derivatives, corporate finance and Cash Management all growing strongly. Expenses increased \$8 million or 15 per cent to \$63 million driven higher by investment in business infrastructure, and in compliance and governance capabilities. Loan recoveries remained flat at \$7 million, and the benign credit environment together with sound risk practices resulted in no new provisions from the performing portfolio. Operating profit increased \$17 million, or 22 per cent, to \$94 million.

Korea includes SCFB which was acquired on 15 April 2005. As a result the comparatives reflect in large part the comparison of 12 months ownership in 2006 versus eight and half months in 2005. Korea income increased by \$120 million, or 46 per cent, to \$380 million. Growth has been led by client revenues, with double-digit income growth driven by rates and foreign exchange and derivatives. There was steady growth in transaction banking products such as Sweep2Bank and supply chain finance driving growth. Expenses increased by \$46 million, or 36 per cent, to \$173 million. The increase in expenses primarily reflects investment in staff and product capabilities, partially offset by lower integration costs. Impairment was broadly flat year on year.

Other Asia Pacific income grew \$209 million, or 47 per cent, to \$655 million. Thailand recorded double-digit income growth as client related revenues grew strongly mainly in foreign exchange and derivatives. Expenses increased \$68 million, or 25 per cent, to \$336 million reflecting investment in the business. Net recoveries reduced from \$117 million in 2005 to \$6 million in 2006, the former largely reflecting recoveries in Thailand. Operating profit increased \$27 million, or nine per cent, to \$322 million. Acquisitions contributed \$11 million to operating profit.

India income grew \$187 million, or 61 per cent, to \$494 million. This was driven primarily from increased client activity, notably in transaction banking where volumes rose sharply and margins rose in line with higher interest rates. The foreign exchange and derivatives business has also grown strongly from the middle market segment. Corporate finance performed strongly with several significant cross border deals, and there has been strong income from private equity, as the Group has taken the opportunity to exit a number of successful investments. Expenses increased \$47 million, or 37 per cent, to \$174 million, the growth being primarily due to investment in people and in performance related compensation. There has also been investment in systems capabilities. Loan recoveries were broadly flat compared to 2005, a reflection of a continuing benign credit environment together with strong risk management. Operating profit increased \$140 million, or 75 per cent, to \$327 million.

MESA income grew \$92 million, or 21 per cent, to \$525 million. Client revenues continued to grow strongly with Cash Management, corporate finance and capital market products being the main contributors. Within this the Wholesale Banking business in the UAE grew income by 25 per cent. Expenses increased \$77 million, or 49 per cent, to \$234 million, as investment in people and infrastructure continued to support the rapid growth in income. The business also invested in establishing its presence in the Dubai International Financial Centre. Loan recoveries decreased by \$34 million, or 81 per cent, to \$8 million. As a result of the decline in recoveries operating profit decreased \$19 million, or six per cent, to \$299 million. Acquisitions contributed \$3 million to operating profit.

Africa income grew \$88 million, or 30 per cent, to \$383 million as the hyperinflation charge taken in Zimbabwe in 2005 was not repeated. This increase in income was driven by sales in core products such as lending, cash and sales. There was strong progress in corporate finance and corporate advisory services driven in part by the investment in First Africa and a new agribusiness finance team. Expenses increased \$25 million, or 13 per cent, to \$219 million partly due to the acquisition of new sales capabilities, the set up of the structured finance team in South Africa, and investment in infrastructure. Impairment decreased from \$30 million in 2005 to \$14 million in 2006, reflecting disciplined credit processes. Operating profit more than doubled increasing \$78 million to \$141 million.

Americas, UK and Group Head Office income was down \$10 million, or two per cent, to \$485 million. Income was lower primarily due to private equity where the gains of 2005 were not repeated. Cash Management was up 19 per cent across the region as a result of volume growth and interest rate increases. Trade was up 10 per cent, benefiting from strong flows in commodity markets. Expansion of the foreign exchange and derivatives business resulted in double-digit growth. The key focus in UK and Americas remains on growing customer relationships that benefit the Group's international network. Expenses increased \$80 million, or 19 per cent, to \$508 million as the business invested in its infrastructure. Loan recoveries decreased by \$22 million, or 34 per cent, to \$43 million. Operating profit decreased \$112 million, to \$17 million.

Product Performance

Trade and Lending operating income increased by \$126 million, or 14 per cent, to \$1,006 million. Trade income grew as a 35 per cent increase in average balances more than offset pricing pressures in a fiercely competitive market. In lending, income was flat as distribution capability was built and as margins remained under pressure in a highly liquid market.

Global Markets income had another very strong year with growth of \$458 million, or 32 per cent, to \$1,895 million as the Group benefited from the investment of recent years in product capability and direct relationship management. Rates and foreign exchange grew strongly in the core markets of Korea, India and MESA driven by foreign exchange and derivative products. Capital markets and corporate finance also posted double-digit income growth with profits from private equity investments driving up income. ALM revenues were up slightly on 2005 although conditions remained difficult in a flat yield curve environment.

The effect of the acquisitions on the geographic results is shown below:

MESA segment – Total

	2006			2005
	Total \$million	Acquisitions \$million	Underlying \$million	Total \$million
Operating Income	1,070	51	1,019	812
Expenses	(514)	(34)	(480)	(339)
Loan impairment	(53)	(10)	(43)	9
Profit before taxation	503	7	496	482

Other Asia Pacific segment – Total

	2006			2005
	Total \$million	Acquisitions \$million	Underlying \$million	Total \$million
Operating Income	1,384	96	1,288	1,057
Expenses	(785)	(57)	(728)	(610)
Loan impairment	(384)	(8)	(376)	(49)
Other impairment	(3)	–	(3)	–
Loss from associates	(4)	–	(4)	–
Profit before taxation	208	31	177	398

The effect of the acquisitions on the business results for 2006 is shown below:

	Consumer Banking \$million	Wholesale Banking \$million	Total as reported \$million
Operating Income	123	24	147
Expenses	(82)	(9)	(91)
Loan impairment	(17)	(1)	(18)
Profit before taxation	24	14	38

Cash Management and Custody income grew strongly by \$280 million, or 38 per cent, to \$1,022 million. Income was driven higher by increased balances, up 27 per cent, and better margins as higher interest rates prevailed through the year.

Acquisitions Operating Income and Profit

The impact of acquisitions on the results of the Group is not material for 2006, Union, Permata and HIB together contributing \$147 million of income. Expenses for the acquisitions were \$91 million. These expenses include post acquisition integration costs. The cost income ratio for the acquisitions was 61.9 per cent.

Impairment losses on loans and advances was \$18 million arising mainly in Union.

The post-acquisition profit of Union has been included in the Group results within the MESA segment, HIB and the increased share of Permata has been included in the Group results within the Other Asia Pacific segment.

Risk Review

Risk Management Review

During 2006 the credit risk environment has generally been benign and outside of Taiwan the Group has seen little evidence of stress in its major geographies.

The OECD market has seen a rise in default levels. However tight management of risk in Wholesale Banking, coupled with proactive management of accounts has resulted in very low levels of provisions. The benign economic conditions in the Group's core markets, together with good progress on the management of problem accounts has resulted in further high levels of recoveries during the year.

The Consumer Banking impairment charge for the year has been significantly impacted by the consumer credit climate in Taiwan, which particularly affected the first half of the year. The Consumer Banking business has demonstrated a strong capability for dealing with such circumstances throughout the crisis, as evidenced by the material improvement in the impairment rate in the second half of 2006.

Consumer Banking continues to take initiatives to further improve its risk management capability. Risk control systems are being enhanced so the business can maintain its competitive advantage in this respect while growing assets profitably.

Despite the generally benign conditions, what is noticeable is that the credit environment is exhibiting many of the characteristics that have in the past indicated a downturn. Nevertheless, liquidity remains strong across most key geographies, and the ability to distribute risk widely, or to take protection at reasonable cost, indicate that any downturn may be gradual in nature and less of a dramatic decline.

The Group has made some significant acquisitions over the last two years. Risk controls and processes have been integrated into SCFB. The Group is also progressing well with the integration of the risk governance framework into its latest acquisitions in Taiwan and Pakistan.

The Group strongly supports the principle of a more risk sensitive approach to capital adequacy and therefore the new Basel II framework. The Group recognises that Basel II is a driver for continuous improvement of risk management practices, but in the short term it is also a significant regulatory exercise.

The Group continues its preparation for Basel II. Work started in 2002, with priority initially given to enhancing risk models to Basel II standards, and on developing the infrastructure required to gather and use the more detailed data required by the models. More recently, the Group has addressed the changes in capital management and regulatory processes in line with the Financial Services Authority ("FSA") guidelines.

The Group is now in the process of applying to the FSA for formal approval of its Basel II practices. Management is also in contact with local regulators; not all regulators will adopt Basel II at the same time and their detailed requirements will differ, presenting the Group with a complex implementation process that will take the next two to three years to complete. The Group continues to work closely with the FSA on these matters, recognising its role as the lead regulator.

Risk Governance

Through its risk management structure the Group seeks to manage efficiently the core risks: credit, market, country and liquidity risk. These arise directly through the Group's commercial activities whilst compliance and regulatory risk, operational risk and reputational risks are normal consequences of any business undertaking.

The basic principles of risk management followed by the Group include:

- **Balancing risk and reward:** risk is taken in support of the requirements of the Group's stakeholders. Risk should be taken in support of the Group strategy and within its risk appetite.
- **Responsibility:** given the Group is in the business of taking risk, it is everyone's responsibility to ensure that risk taking is both disciplined and focused. The Group takes account of its social, environmental and ethical responsibilities in taking risk to produce a return.
- **Accountability:** risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk taking must be transparent, controlled and reported.
- **Anticipation:** the Group looks to anticipate future risks and to maximise awareness of all risk.
- **Risk management:** the Group aims to have a world class specialist risk function, with strength in depth, experience across risk types and economic scenarios.

Ultimate responsibility for the effective management of risk rests with the Company's Board. Acting within an authority delegated by the Board, the Audit and Risk Committee ("ARC"), whose members are all Non-Executive Directors of the Company, reviews specific risk areas and monitors the activities of the Group Risk Committee ("GRC") and the Group Asset and Liability Committee ("GALCO").

GRC, through authority delegated by the Board, is responsible for credit risk, market risk, operational risk, compliance and regulatory risk, legal risk and reputational risk. GALCO, through authority delegated by the Board, is responsible for liquidity risk, for structural interest rate and foreign exchange exposures, and for capital ratios.

All the Group Executive Directors ("GEDs") of Standard Chartered PLC, members of the Standard Chartered Bank Court and the Group Chief Risk Officer are members of the GRC. This Committee is chaired by the Group Chief Risk Officer. The GRC is responsible for agreeing Group standards for risk measurement and management, and also delegating authorities and responsibilities to risk committees and to the Group and Regional Credit Committees and Risk Officers.

GALCO membership consists of all the GEDs of Standard Chartered PLC and members of Standard Chartered Bank Court. The committee is chaired by the Group Finance Director. GALCO is responsible for the establishment of and compliance with, policies relating to balance sheet management including management of the Group's liquidity, capital adequacy and structural foreign exchange rate risk.

Risk Governance continued

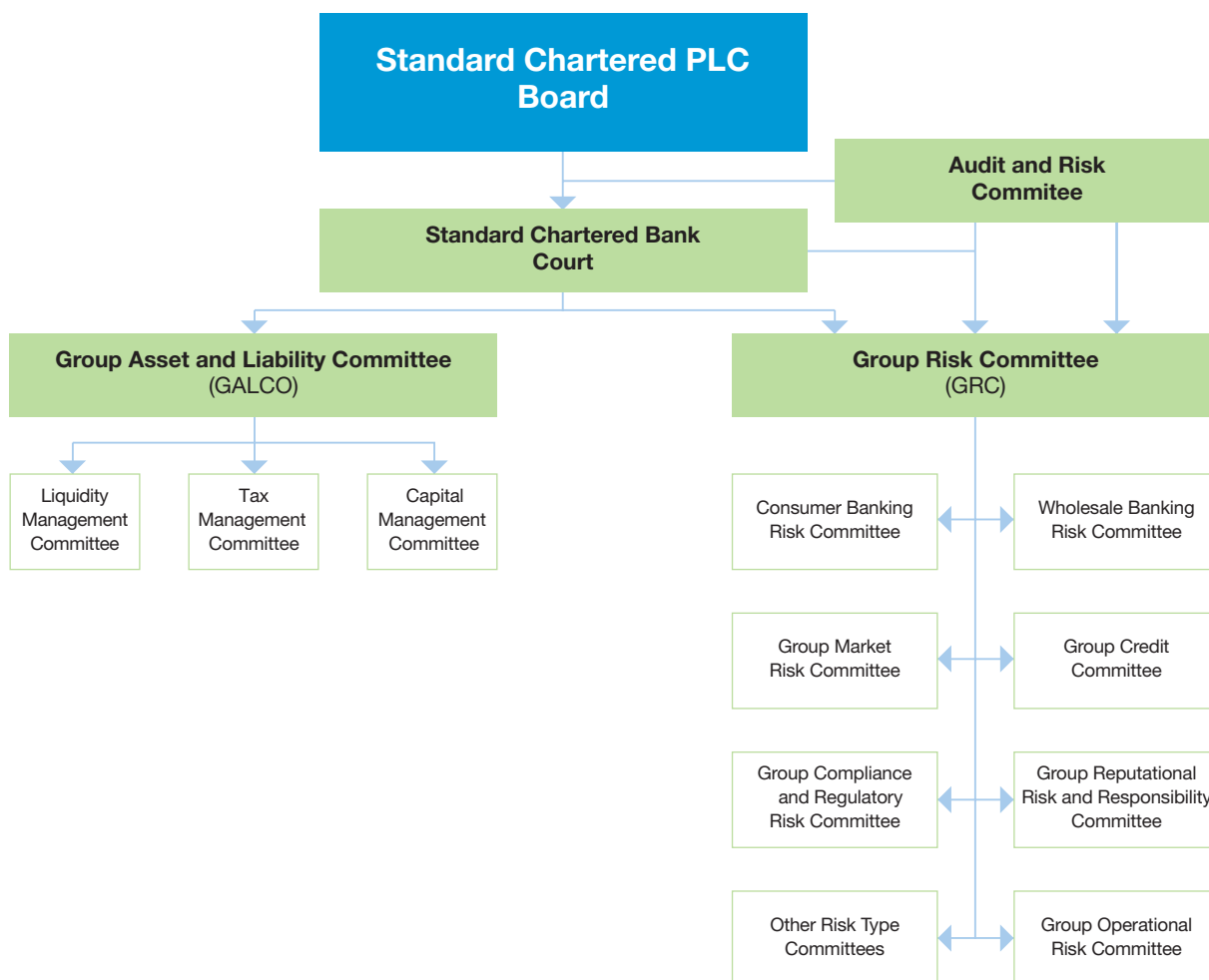
The committee process ensures that standards and policies are cascaded down through the organisation from the Board through the GRC and the GALCO to the functional, regional and country level committees. Key information is communicated through the country, regional and functional committees to Group so as to provide assurance that standards and policies are being followed.

The diagram below illustrates the high level committee structure.

The Group Executive Director with responsibility for Risk (GED Risk) and the Group Chief Risk Officer manage a risk function which is independent of the businesses and which:

- recommends Group standards and policies for risk measurement and management;
- monitors and reports Group risk exposures for country, credit, market and operational risk;
- approves market risk limits and monitors exposure;
- sets country risk limits and monitors exposure;
- chairs the credit committee and delegates credit authorities;
- validates risk models; and
- recommends risk appetite and strategy.

Group Risk Committee Structure



Risk Review continued

Risk Governance continued

Individual GEDs and members of the Standard Chartered Bank Court are accountable for risk management in their businesses and support functions, and for countries where they have governance responsibilities. This includes:

- implementing the policies and standards as agreed by the GRC across all business activity;
- managing risk in line with appetite levels agreed by the GRC; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policy.

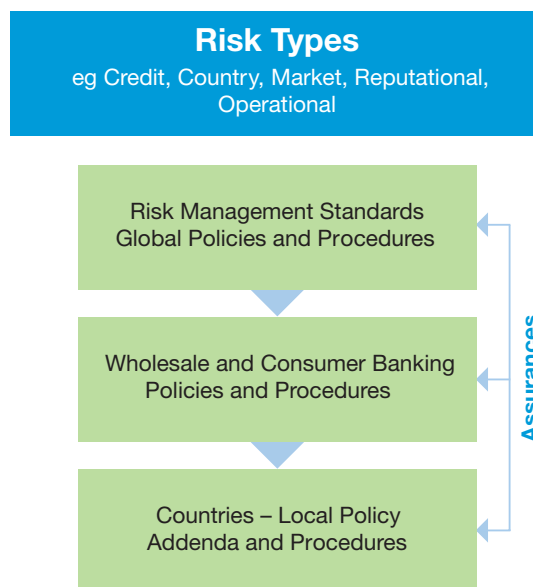
The Group's Risk Management Framework ("RMF") identifies 18 risk types, which are managed by designated Risk Type Owners ("RTOs"), who are all approved persons under the FSA regulatory framework, and who have responsibility for setting minimum standards and governance and implementing governance and assurance processes. The RTOs report up through specialist risk committees to the GRC, or in the case of Liquidity Risk, to the GALCO.

In support of the RMF the Group uses a set of risk principles, which are sanctioned by the GRC. These comprise a set of statements of intent that describe the risk culture that the Group wishes to sustain. All risk decisions and risk management activity should be in line with, and in the spirit of, the overall risk principles of the Group. The governance process is designed to ensure:

- business activities are controlled on the basis of risk adjusted return;
- risk is managed within agreed parameters with risk quantified wherever possible;
- risk is assessed at the outset and throughout the time that the Group continues to be exposed to it;
- applicable laws, regulations and governance standards in every country in which the Group does business are abided by;
- high and consistent ethical standards are applied to the Group's relationships with its customers, employees and other stakeholders; and
- activities are undertaken in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

The GED Risk and the Group Chief Risk Officer, together with Group Internal Audit, provide assurance, independent from the businesses, that risk is being measured and managed in accordance with the Group's standards and policies.

Risk Management Framework



Stress Testing

Objectives and purpose of stress testing

Stress testing and scenario analysis are important components of the Group's risk assessment processes, and are used to assess the financial and management capability of the Group to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental, and social factors which define the context within which the Group operates. It is intended that stress testing and scenario analysis will help to inform senior and middle management with respect to:

- the nature and dynamics of the risk profile;
- the identification of potential future risks;
- the setting of the Group's risk appetite;
- the robustness of risk management systems and controls;
- the adequacy of contingency planning; and
- the effectiveness of risk mitigants.

Stress testing framework

The diagram below illustrates the framework, which has been designed to satisfy the following requirements:

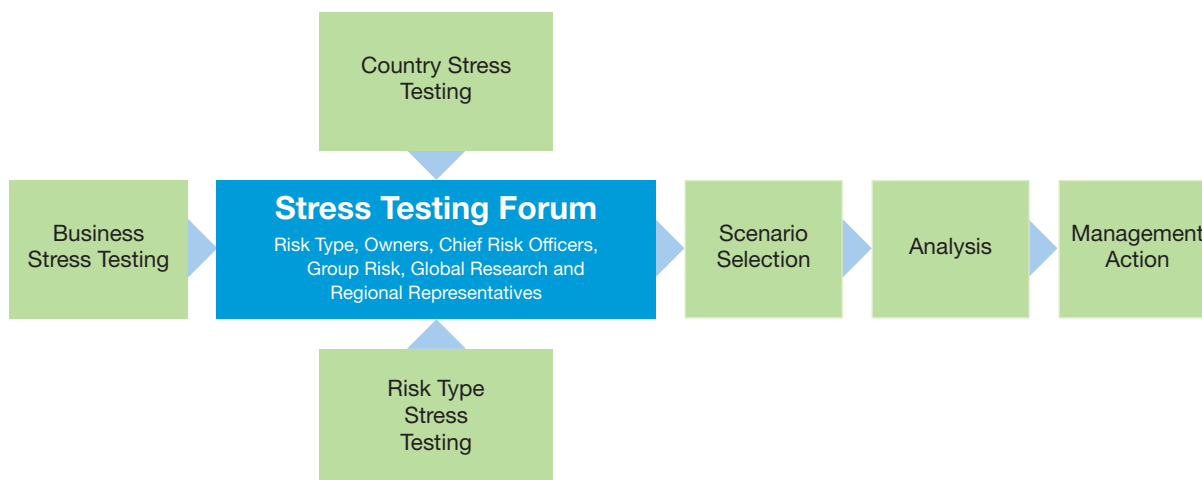
- identify key risks to the Group's strategy, financial position, and reputation;

- ensure effective governance, processes and systems are in place to coordinate stress testing;
- integrate current stress testing and scenario analysis procedures;
- engage and inform senior management;
- assess the impact on the Group's profitability and business plans;
- enable the Group to set and monitor its risk appetite; and
- satisfy regulatory requirements.

Key to the framework is the formation of a Stress Testing Forum that is a formally constituted body deriving its powers from the GRC. The primary objective of this forum is to identify and assess the extreme but plausible risks to which the Group may be subjected, and to make recommendations to senior management for suitable scenarios.

Group-wide scenario analysis represents a wide ranging assessment of potential impact. Therefore it is coordinated through a Group risk function, which is responsible for consolidating the analysis and highlighting existing mitigants, controls, plans, and procedures to manage the identified risk, as well as any additional management action required.

Stress Testing Framework



Risk Appetite

Risk appetite is the amount of risk the Group wants to take pursuant to its strategic objectives.

The RMF summarises the Group's risk appetite for each of the identified risk types, as well as the related management standards.

Risk appetite setting is the Group's chosen method of balancing risk and return, recognising a range of possible outcomes, as business plans are implemented. The Group adopts quantitative risk appetite statements where applicable, and aggregates risk appetite across businesses where appropriate.

For example, a formal quantitative statement from the Board communicates the Group's overall credit risk appetite and ensures this is in line with the strategy and the desired risk-reward trade off for the Group.

Where risk appetite statements are qualitative, these are supported with measures that allow business units to judge whether existing and new business and processes fall within the risk appetite.

The annual business planning and performance management process and associated activities ensure the expression of risk appetite remains appropriate, and the GRC supports this work.

Credit Risk

Credit Risk Management

Credit risk is the risk that a counterparty will not settle its obligations in accordance with agreed terms.

Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books.

The GRC has clear responsibility for credit risk. Standards are approved by the GRC, which oversees the delegation of credit authorities.

Procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals. Risk officers are located in the businesses to maximise the efficiency of decision making, but have a reporting line which is separate from the business lines into the Group Chief Risk Officer.

The businesses working with the Risk Officer take responsibility for managing pricing for risk, portfolio diversification and overall asset quality within the requirements of Group standards, policies and business strategy.

Where appropriate, derivatives are used to reduce credit risks in the portfolio. Due to the income statement volatility which can result, derivatives are only used in a controlled manner and within a pre-defined volatility expectation.

Wholesale Banking

Within the Wholesale Banking business, a numerical grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure, with customers analysed against a range of quantitative and qualitative measures. Expected Loss is used for the further assessment of individual exposures and portfolio analysis. There is a clear segregation of duties with loan applications being prepared separately from the approval chain. Significant exposures are reviewed and approved centrally through a Group or regional level credit committee. These committees are responsible to the GRC.

Consumer Banking

For Consumer Banking, standard credit application forms are generally used, which are processed in central units using largely automated approval processes. Where appropriate to the customer, the product or the market, a manual approval process is in place. As with Wholesale Banking, origination and approval roles are segregated.

Loan Portfolio

Loans and advances to customers have grown by \$28.3 billion to \$140.5 billion. Included in this is the effect of acquisitions made during the year in Pakistan and Taiwan.

The Union portfolio increased loans and advances in Consumer Banking by \$0.6 billion. The Union Wholesale Banking portfolio is \$0.5 billion and is well diversified.

Of the \$9.5 billion HIB total portfolio, 84 per cent relates to Consumer Banking and of this, 61 per cent represents the mortgage portfolio. The Wholesale Banking portfolio stands at \$1.6 billion.

Growth in the Consumer Banking portfolio has been constrained with mortgages, both in Hong Kong and Singapore, seeing increased attrition rates as the local markets have become highly competitive.

Growth in the Wholesale Banking portfolio was \$15.2 billion, or 34 per cent, excluding recent acquisitions. Growth was seen in the Manufacturing, Commerce, and Financing, insurance and business services industries. This was well spread across geographies.

The use of derivatives has partially offset the risks arising from the growth in the balance sheet during the period.

The Wholesale Banking portfolio remains well diversified across both geography and industry, with no significant concentration within the industry classifications of Manufacturing, Financing, insurance and business services, Commerce or Transport, storage and communication.

	2006									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans to individuals										
Mortgages	11,245	3,551	2,593	23,954	6,107	1,492	416	239	155	49,752
Other	2,235	1,028	771	4,612	4,163	928	2,650	483	537	17,407
Small and medium enterprises	919	1,548	883	4,907	3,037	567	323	133	–	12,317
Consumer Banking	14,399	6,127	4,247	33,473	13,307	2,987	3,389	855	692	79,476
Agriculture, forestry and fishing	53	13	53	20	108	25	65	159	297	793
Construction	57	29	26	262	88	198	332	78	2	1,072
Commerce	1,986	1,320	331	348	1,244	608	2,004	457	1,269	9,567
Electricity, gas and water	176	17	56	31	307	26	193	80	815	1,701
Financing, insurance and business services	1,817	1,664	724	1,176	1,436	479	1,245	182	3,264	11,987
Governments	–	3,328	3,397	13	20	–	4	–	235	6,997
Mining and quarrying	–	3	–	50	324	32	352	110	1,624	2,495
Manufacturing	2,282	701	228	3,208	5,376	1,435	1,848	406	2,504	17,988
Commercial real estate	819	708	5	849	650	231	27	7	–	3,296
Transport, storage and communication	277	338	149	189	293	249	810	173	1,647	4,125
Other	220	406	9	496	32	5	314	39	115	1,636
Wholesale Banking	7,687	8,527	4,978	6,642	9,878	3,288	7,194	1,691	11,772	61,657
Portfolio impairment provision	(49)	(28)	(26)	(86)	(313)	(33)	(58)	(10)	(6)	(609)
Total loans and advances to customers	22,037	14,626	9,199	40,029	22,872	6,242	10,525	2,536	12,458	140,524
Total loans and advances to banks	6,474	939	161	1,753	4,462	477	1,058	387	5,353	21,064

Risk Review continued

	2005									
	Asia Pacific					India \$million	Middle East & S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans to individuals										
Mortgages	12,051	4,129	2,532	22,522	996	1,469	132	88	152	44,071
Other	2,154	1,043	663	3,954	3,145	947	2,001	525	158	14,590
Small and medium enterprises	791	1,673	794	4,727	989	332	78	107	–	9,491
Consumer Banking	14,996	6,845	3,989	31,203	5,130	2,748	2,211	720	310	68,152
Agriculture, forestry and fishing	24	–	44	9	110	17	25	183	234	646
Construction	91	48	11	90	64	139	223	41	6	713
Commerce	2,004	958	325	237	598	392	1,324	420	819	7,077
Electricity, gas and water	290	1	65	17	284	49	180	12	664	1,562
Financing, insurance and business services	1,425	925	589	1,135	1,065	502	1,235	168	1,842	8,886
Governments	–	2,323	1,976	66	101	–	70	7	331	4,874
Mining and quarrying	24	11	8	19	140	10	185	75	656	1,128
Manufacturing	1,223	302	344	1,702	2,955	1,019	1,210	402	2,186	11,343
Commercial real estate	1,194	834	3	797	555	61	5	13	18	3,480
Transport, storage and communication	320	235	240	80	304	108	452	174	1,477	3,390
Other	50	85	49	750	11	5	257	46	40	1,293
Wholesale Banking	6,645	5,722	3,654	4,902	6,187	2,302	5,166	1,541	8,273	44,392
Portfolio impairment provision	(57)	(26)	(30)	(68)	(107)	(33)	(29)	(10)	(7)	(367)
Total loans and advances to customers	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Total loans and advances to banks	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959

Maturity Analysis

Approximately 48 per cent of the Group's loans and advances are short term having a contractual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term, with 78 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking,

63 per cent of the portfolio is in the mortgage book, traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

	2006				2005			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking								
Mortgages	4,817	10,376	34,559	49,752	4,756	9,598	29,717	44,071
Other	8,787	6,506	2,114	17,407	8,352	4,666	1,572	14,590
SME	6,592	3,242	2,483	12,317	5,883	1,687	1,921	9,491
Total	20,196	20,124	39,156	79,476	18,991	15,951	33,210	68,152
Wholesale Banking	48,065	8,647	4,945	61,657	33,450	7,246	3,696	44,392
Portfolio impairment provision				(609)				(367)
Loans and advances to customers	68,261	28,771	44,101	140,524	52,441	23,197	36,906	112,177

Problem Credit Management and Provisioning

Consumer Banking

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. These accounts are closely monitored and subject to a collections process.

The process used for raising provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows. Loan impairment for other secured loans utilises the forced sale value of the collateral without discounting. For unsecured products, individual provisions are raised for the entire outstanding amount at 150 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

A portfolio impairment provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers

both performing loans and loans overdue for less than 150 days. The provision is set with reference to past experience using flow rate methodology, as well as taking account of judgemental factors such as the economic and business environment in core markets, and the trends in a range of portfolio indicators.

The cover ratio reflects the extent to which the gross non-performing loans are covered by the individual and portfolio impairment provisions. The balance of non-performing loans uncovered by the individual impairment provisions reflects the level of collateral held and/or the estimated net value of any recoveries.

The table below sets out the total non-performing portfolios in Consumer Banking. The significant decrease in non-performing loans in Korea is primarily as a result of the successful exiting of SME accounts and the realisation of collateral. The increase in individual impairment provisions in Other Asia Pacific and Middle East & Other S Asia includes the impact of the acquisitions of HIB and Union respectively.

	2006									
	Asia Pacific								Americas UK & Group Head Office	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	\$million	\$million
Loans and advances										
Gross non-performing	80	100	202	531	668	48	98	24	5	1,756
Individual impairment provision	(29)	(38)	(67)	(239)	(377)	(17)	(64)	(10)	(3)	(844)
Non-performing loans net of individual impairment provision	51	62	135	292	291	31	34	14	2	912
Portfolio impairment provision										(452)
Net non-performing loans and advances										460
Cover ratio										74%

	2005									
	Asia Pacific								Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million		
Loans and advances										
Gross non-performing	81	117	171	856	101	53	22	17	29	1,447
Individual impairment provision	(22)	(31)	(63)	(310)	(61)	(13)	(16)	(9)	(3)	(528)
Non-performing loans net of individual impairment provision	59	86	108	546	40	40	6	8	26	919
Portfolio impairment provision										(278)
Net non-performing loans and advances										641
Cover ratio										56%

Risk Review continued

Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness. Such accounts and portfolios are subject to a dedicated process with oversight involving senior Risk Officers and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

Loans are designated as impaired and considered non-performing where recognised weakness indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue. Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

The following table sets out the total non-performing portfolio in Wholesale Banking:

2006										
Asia Pacific								Americas UK & Group Head Office		Total
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million			\$million
Loans and advances										
Gross non-performing	167	69	29	110	251	24	121	100	152	1,023
Individual impairment provision	(130)	(46)	(25)	(46)	(154)	(22)	(102)	(58)	(151)	(734)
Non-performing loans and advances net of individual impairment provision	37	23	4	64	97	2	19	42	1	289
Portfolio impairment provision										(158)
Net non-performing loans and advances										131
Cover ratio										87%

2005										
Asia Pacific								Americas UK & Group Head Office		Total
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million			\$million
Loans and advances										
Gross non-performing	355	125	36	156	133	83	60	89	210	1,247
Individual impairment provision	(257)	(109)	(33)	(51)	(118)	(27)	(48)	(51)	(164)	(858)
Non-performing loans and advances net of individual impairment provision	98	16	3	105	15	56	12	38	46	389
Portfolio impairment provision										(90)
Net non-performing loans and advances										299
Cover ratio										76%

Wholesale Banking continued

2006										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Gross impairment charge	14	9	2	7	3	9	10	19	7	80
Recoveries/provisions no longer required	(50)	(6)	(8)	(3)	(11)	(19)	(18)	(6)	(49)	(170)
Net individual impairment charge/(credit)	(36)	3	(6)	4	(8)	(10)	(8)	13	(42)	(90)
Portfolio impairment provision										(2)
Net impairment credit										(92)

2005										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Gross impairment charge	70	25	2	—	5	6	9	40	12	169
Recoveries/provisions no longer required	(6)	(12)	(9)	(1)	(117)	(12)	(50)	(8)	(72)	(287)
Net individual impairment charge/(credit)	64	13	(7)	(1)	(112)	(6)	(41)	32	(60)	(118)
Portfolio impairment provision										12
Net impairment credit										(106)

Risk Review continued

Movement in Group Individual Impairment Provision

The following tables set out the movements in the Group's total individual impairment provision against loans and advances:

	2006									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Provisions held at 1 January 2006	279	140	96	361	179	40	64	60	167	1,386
Exchange translation differences	–	7	6	29	8	1	(2)	(1)	9	57
Amounts written off/recoveries on acquisition fair values	(119)	(108)	(51)	(170)	(403)	(64)	(88)	(17)	(48)	(1,068)
Recoveries of amounts previously written off	49	8	11	8	18	17	12	2	3	128
Acquisitions	–	–	–	–	369	–	134	–	–	503
Discount unwind	(2)	(2)	(4)	(32)	(7)	(1)	–	(2)	(2)	(52)
Other	(63)	–	–	14	1	1	–	–	67	20
New provisions	126	71	94	131	403	76	79	44	9	1,033
Recoveries/provisions no longer required	(111)	(32)	(60)	(56)	(37)	(31)	(33)	(18)	(51)	(429)
Net charge against/(credit) to profit	15	39	34	75	366	45	46	26	(42)	604
Provisions held at 31 December 2006	159	84	92	285	531	39	166	68	154	1,578

	2005									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Provisions held at 1 January 2005	294	119	127	1	319	43	125	64	457	1,549
Exchange translation differences	(7)	(2)	1	4	(8)	(1)	5	(4)	(13)	(25)
Amounts written off	(156)	(30)	(58)	(21)	(204)	(66)	(70)	(43)	(223)	(871)
Recoveries of amounts previously written off	49	6	11	5	36	21	14	4	7	153
Acquisitions	–	–	–	352	–	–	–	–	–	352
Discount unwind	(3)	(3)	(4)	(28)	(2)	(1)	–	(2)	(5)	(48)
Other	1	–	–	–	19	(1)	1	(2)	3	21
New provisions	165	92	62	57	153	105	48	60	12	754
Recoveries/provisions no longer required	(64)	(42)	(43)	(9)	(134)	(60)	(59)	(17)	(71)	(499)
Net charge against/(credit) to profit	101	50	19	48	19	45	(11)	43	(59)	255
Provisions held at 31 December 2005	279	140	96	361	179	40	64	60	167	1,386

Country Risk

Country Risk is the risk that a counterparty is unable to meet its contractual obligations as a result of adverse economic conditions or actions taken by governments in the relevant country.

The GRC approves country risk limits and delegates the setting and management of country limits to the Deputy Group Chief Risk Officer.

The business and country Chief Executive Officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Cross border assets comprise loans and advances, interest bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, certificates of deposit and other negotiable paper and

investment securities where the counterparty is resident in a country other than that where the assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

Cross border exposure to countries in which the Group does not have a significant presence is predominantly in relation to money market and global corporate activity. This business is originated in the Group's key markets, but is conducted with counterparties domiciled in the country against which the exposure is reported.

The following table, based on the Bank of England Cross Border Reporting ("CE") guidelines, shows the Group's cross border assets including acceptances where they exceed one per cent of the Group's total assets.

	2006				2005			
	Public sector \$million	Banks \$million	Other \$million	Total \$million	Public sector \$million	Banks \$million	Other \$million	Total \$million
USA	1,194	1,027	2,895	5,116	1,227	555	2,505	4,287
Hong Kong	4	576	4,531	5,111	1	311	2,776	3,088
Korea	8	1,029	3,439	4,476	13	1,476	2,006	3,495
Singapore	–	584	3,471	4,055	–	326	1,945	2,271
India	3	1,335	2,585	3,923	1	949	1,456	2,406
France	62	3,591	167	3,820	159	2,550	155	2,864
Australia	–	2,794	258	3,052	–	1,587	242	1,829
Dubai	–	1,504	1,413	2,917	–	702	690	1,392
China	94	1,055	1,571	2,720	63	982	1,405	2,450

Risk Review continued

Market Risk

The Group recognises market risk as the exposure created by potential changes in market prices and rates. The Group is exposed to market risk arising principally from customer driven transactions.

Market risk is governed by the GRC, which agrees policies and levels of risk appetite in terms of Value at Risk ("VaR"). The Group Market Risk Committee ("GMRC") provides market risk oversight and guidance on policy setting. Policies cover both trading and non-trading books of the Group. The trading book is defined as per the FSA Handbook BIPRU. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy.

Group Market Risk ("GMR") approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and currency concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. Option risks are controlled through revaluation limits on currency and volatility shifts, limits on volatility risk by currency pair and other variables that determine the options' value.

VaR models are back tested against actual results to ensure pre-determined levels of accuracy are maintained. GMR complements the VaR measurement by regularly stress testing market risk exposures to highlight potential risks that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. Ad hoc scenarios are also prepared reflecting specific market conditions. A consistent stress testing methodology is applied to trading and non-trading books.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. GRC considers stress testing results as part of its supervision of risk appetite.

The stress test methodology assumes that management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

Value at Risk

The Group uses historic simulation to measure VaR on all market risk related activities.

The total VaR for trading and non-trading books combined at 31 December 2006 was \$10.3 million (2005: \$10.8 million).

Interest rate related VaR was \$9.3 million (2005: \$10.3 million) and foreign exchange related VaR was \$1.5 million (2005: \$1.1 million).

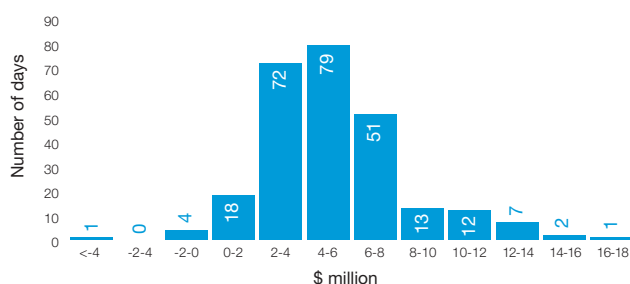
The average total VaR for trading and non-trading books during 2006 was \$10.6 million (2005: \$12.4 million) with a maximum exposure of \$14.0 million (2005: \$20.6 million).

VaR for interest rate risk in the non-trading books of the Group totalled \$8.0 million at 31 December 2006 (2005: \$9.2 million).

The Group has no significant trading exposure to equity or commodity price risk.

The average daily income earned from market risk related activities during 2006 was \$5.2 million, compared with \$4.1 million during 2005.

Revenue Distribution



Foreign Exchange Exposure

The Group's foreign exchange exposures comprise trading and non-trading foreign currency translation exposures and structural currency exposures in net investments in non US dollar units.

Foreign exchange trading exposures are principally derived from customer driven transactions. The average daily income from foreign exchange trading businesses during 2006 was \$2.0 million (2005: \$2.0 million).

Interest Rate Exposure

The Group's interest rate exposures arise from trading and non-trading activities.

Structural interest rate risk arises from the differing re-pricing characteristics of commercial banking assets and liabilities.

The average daily income from interest rate trading businesses during 2006 was \$3.2 million (2005: \$2.1 million).

Derivatives

Derivatives are contracts whose characteristics and value derive from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions in the foreign exchange, credit and interest rate markets. Derivatives are an important risk management tool for banks and their customers because they can be used to manage the risk of price, interest rate and exchange rate movements.

The Group's derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes or by using standard industry pricing models.

The Group enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest, credit and exchange rates.

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or for hedging purposes.

The Group applies a future exposure methodology to manage counterparty credit exposure associated with derivative transactions. Please refer to note 51 on page 139 for further information on Market Risk.

Hedging

In accounting terms, hedges are classified into three types: fair value hedges, where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, where variable rates of interest or foreign exchange are exchanged for fixed rates, and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars.

The Group uses futures, forwards, swaps and options transactions in the foreign exchange and interest rate markets to hedge risk.

The Group occasionally hedges the value of its foreign currency denominated investments in subsidiaries and branches. Hedges may be taken where there is a risk of a significant exchange rate movement but, in general, management believes that the Group's reserves are sufficient to absorb any foreseeable adverse currency depreciation.

The effect of exchange rate movements on the capital risk asset ratio is mitigated by the fact that both the net asset value of these investments and the risk weighted value of assets and contingent liabilities follow substantially the same exchange rate movements.

Liquidity Risk

The Group defines liquidity risk as the risk that the Group either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access them only at excessive cost.

It is the policy of the Group to maintain adequate liquidity at all times, in all geographical locations and for all currencies. Hence the Group aims to be in a position to meet all obligations, to repay depositors, to fulfil commitments to lend and to meet any other commitments.

Liquidity risk management is governed by GALCO, which is chaired by the Group Finance Director. GALCO is responsible for both statutory and prudential liquidity. These responsibilities are managed through the provision of authorities, policies and procedures that are co-ordinated by the Liquidity Management Committee ("LMC") with country Asset and Liability Committees ("ALCO").

Due to the diversified nature of the Group's business, the Group's policy is that liquidity is more effectively managed locally, in-country. Each ALCO is responsible for ensuring that the country is self-sufficient and is able to meet all its obligations to make payments as they fall due. The ALCO has primary responsibility for compliance with regulations and Group policy and maintaining a country liquidity crisis contingency plan.

A substantial portion of the Group's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency.

The Group also maintains significant levels of marketable securities either for compliance with local statutory requirements or as prudential investments of surplus funds.

The GALCO also oversees the structural foreign exchange and interest rate exposures that arise within the Group. These responsibilities are managed through the provision of authorities, policies and procedures that are co-ordinated by the Capital Management Committee. Policies and guidelines for the maintenance of capital ratio levels are approved by GALCO. Compliance with Group ratios is monitored centrally by Group Corporate Treasury, while local requirements are monitored by the local ALCO.

Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Group Operational Risk Committee ("GORC") has been established to supervise and direct the management of operational risks across the Group. GORC is also responsible for ensuring adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

A Group Operational Risk function, independent from the businesses, is responsible for establishing and maintaining the overall operational risk framework, and for monitoring the Group's key operational risk exposures. This unit is supported by Wholesale Banking and Consumer Banking Operational Risk units. These units are responsible for ensuring compliance with policies and procedures in the business, monitoring key

Risk Review continued

Operational Risk continued

operational risk exposures, and the provision of guidance to the respective business areas on operational risk.

Compliance with operational risk policies and procedures is the responsibility of all managers. Every country operates a Country Operational Risk Group ("CORG"). The CORG has in-country governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

Compliance and Regulatory Risk

Compliance and Regulatory risk includes the risk of non-compliance with regulatory requirements in a country in which the Group operates. The Group Compliance and Regulatory Risk function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

Legal Risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Group, failure to protect the title to and ability to control the rights to assets of the Group (including intellectual property rights), changes in the law or jurisdictional risk. The Group manages legal risk through the Group Legal Risk Committee, Legal Risk policies and procedures and effective use of its internal and external lawyers.

Reputational Risk

Reputational risk is any material adverse effect on the relations between the Group and any one of its significant stakeholders. It is Group policy that the protection of the Group's reputation should take priority over all activities including revenue generate on at all times.

Reputational risk is not a primary risk, but will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, legal and regulatory and operational risk. It may also arise from the failure to comply with Social, Environmental and Ethical

standards. All staff are responsible for day to day identification and management of reputational risk.

From an organisational perspective the Group manages reputational risk through the Group Reputational Risk and Responsibility Committee ("GRRRC") and Country Management Committees. Wholesale Banking has a specialised Responsibility and Reputational Risk Committee which reviews individual transactions. In Consumer Banking, potential reputational risks resulting from transactions or products are reviewed by the Product and Reputational Risk Committee. Issues are then escalated to the GRRRC.

A critical element of the role of the GRRRC is to act as a radar for the Group in relation to the identification of emerging or thematic risks. The GRRRC also ensures that effective risk monitoring is in place for Reputational Risk and reviews mitigation plans for significant risks.

At a country level, the Country CEO is responsible for the Group's reputation in their market. The Country CEO and their Management Committee must actively:

- promote awareness and application of the Group's policy and procedures regarding reputational risk;
- encourage business and functions to take account of the Group's reputation in all decision making, including dealings with customers and suppliers;
- implement effective functioning of the in country reporting system to ensure their management committee is alerted of all potential issues; and
- promote effective, proactive stakeholder management.

Monitoring

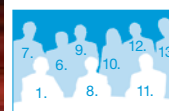
Group Internal Audit is a separate Group function that reports to the Group Chief Executive and the ARC. Group Internal Audit provides independent confirmation that Group and business standards, policies and procedures are being complied with. Where necessary, corrective action is recommended.

Capital

Capital

The GALCO targets Tier 1 and total capital ratios of 7-9 per cent and 12-14 per cent respectively.

	2006 \$million	2005 \$million
Tier 1 capital:		
Called up ordinary share capital and preference shares	7,771	5,982
Eligible reserves	8,937	6,151
Minority interests	211	115
Innovative Tier 1 securities	2,262	1,542
Less: Restriction on innovative Tier 1 securities	(337)	(83)
Goodwill and other intangible assets	(6,146)	(4,321)
Unconsolidated associated companies	229	186
Other regulatory adjustments	(94)	153
Total Tier 1 capital	12,833	9,725
Tier 2 capital:		
Eligible revaluation reserves	509	195
Portfolio impairment provision	610	368
Qualifying subordinated liabilities:		
Perpetual subordinated debt	3,368	3,128
Other eligible subordinated debt	5,387	4,169
Less: Amortisation of qualifying subordinated liabilities	(518)	(229)
Restricted innovative Tier 1 securities	337	83
Total Tier 2 capital	9,693	7,714
Investments in other banks	(211)	(148)
Other deductions	(320)	(173)
Total capital base	21,995	17,118
Banking book:		
Risk weighted assets	120,028	99,378
Risk weighted contingents	21,106	16,274
	141,134	115,652
Trading book:		
Market risks	5,834	6,701
Counterparty/settlement risks	6,475	3,571
Total risk weighted assets and contingents	153,443	125,924
Capital ratios		
Tier 1 capital	8.4%	7.7%
Total capital	14.3%	13.6%



1. E Mervyn Davies CBE Chairman

Appointed to the Board on 16 December 1997. He was appointed as Chairman on 20 November 2006. Immediately prior to this he had been Group Chief Executive since 28 November 2001. Before his appointment as Group Chief Executive he was the executive director with responsibility for Hong Kong, China and North East Asia and for Group-wide Technology and Operations. He is a non-executive director of Tesco PLC, Tottenham Hotspur plc and Fleming Family & Partners Limited. He is also Chairman of the Appeal Fundraising Board of Breakthrough Breast Cancer and a Trustee of the Sir Kyffin Williams Trust. Age 54.

2. Peter Sands* Group Chief Executive

Appointed to the Board on 14 May 2002. He was appointed as Group Chief Executive on 20 November 2006. Immediately prior to this he had been Group Finance Director since his appointment to the Board and was responsible for Finance, Risk, Strategy and Technology and Operations. Before his appointment to the Standard Chartered PLC Board he was a director with worldwide consultants McKinsey & Co. He had been with McKinsey since 1988, where he worked extensively in the banking and technology sectors in a wide range of international markets. Age 45.

3. Mike DeNoma*

Appointed to the Board on 12 May 2000. He is Group Executive Director with responsibility for the Group's Consumer Banking business worldwide and leads the Group's Strategy function. He joined Standard Chartered in July 1999 with responsibility for Consumer Banking in Asia. He is a member of the Asia Pacific Regional Advisory Board of MasterCard International, a member of the board of Singapore Management University and a director of the International Centre for Missing and Exploited Children. He is based in Singapore. Age 50.

4. Richard Meddings*

Appointed to the Board on 16 November 2002. He was appointed as Group Finance Director on 20 November 2006 and is responsible for Finance, Corporate Treasury and Corporate Development. Immediately prior to this he was Group Executive Director responsible for growth and governance across Africa, the Middle East, Pakistan, the United Kingdom, Europe and the Americas and before that was responsible for Risk, Special Assets Management and Legal & Compliance. He is a non-executive director of the Indo British Partnership Network. Before his appointment to the Standard Chartered PLC Board he was Chief Operating Officer, Barclays Private Clients at Barclays PLC and before that Group Financial Controller at Barclays PLC. Prior to Barclays he was Group Finance Director of Woolwich PLC. Age 48.

5. Kai Nargolwala*

Appointed to the Board on 7 May 1999. He is Group Executive Director with responsibility for governance in Asia and for the Group's Risk and Special Assets Management functions. He joined Standard Chartered in 1998 as Group Head of Sales. He is a non-executive director of Singapore Telecommunications Ltd and of Tate & Lyle PLC and is on the Visa International Asia Pacific Regional Board. He is based in Singapore. Age 56.

6. Sir CK Chow†

Appointed to the Board on 24 February 1997. He is Chief Executive Officer of MTR Corporation Limited of Hong Kong and is non-executive Chairman of Standard Chartered Bank (Hong Kong) Limited. He is a member of the Hong Kong Tourism Board, the Council of the Chinese University of Hong Kong and the Council of the Hong Kong Institute of Certified Public Accountants. Previously he was Chief Executive Officer of GKN plc and Brambles Industries plc. He is based in Hong Kong. Age 56.

7. Jamie Dundas†

Appointed to the Board on 15 March 2004. He is Chairman of Xchange.co Limited and a non-executive director of Drax Group plc. He is also Chairman of Macmillan Cancer Support. Previously he was Chief Executive Officer of the UK property company MEPC and Finance Director of the Airport Authority Hong Kong. Age 56.

8. Val Gooding CBE†

Appointed to the Board on 1 January 2005. She is Chief Executive Officer of BUPA and a non-executive director of J Sainsbury plc and of The Lawn Tennis Association. She is also a Trustee of the British Museum. Previously she was Director, Asia Pacific with British Airways. Age 56.

9. Rudy Markham† Senior Independent Director

Appointed to the Board on 19 February 2001. He is Chief Financial Officer of Unilever and a non-executive director of Legal and General Group Plc. Age 60.

10. Ruth Markland†

Appointed to the Board on 3 November 2003. She is Chairman of the Board of Trustees of the WRVS and a non-executive director of The Sage Group plc. Previously she was Managing Partner Asia for the international law firm Freshfields Bruckhaus Deringer. Age 54.

11. Paul Skinner†

Appointed to the Board on 3 November 2003. He is Chairman of Rio Tinto plc and is a non-executive director of the Tetra Laval Group and L'Air Liquide SA. He is also a member of the board of INSEAD and of the Defence Management Board of the UK Ministry of Defence. Previously he was a director of The 'Shell' Transport and Trading Company plc and Group Managing Director of the Royal Dutch/Shell Group of companies where he was CEO of its global Oil Products business. Age 62.

12. Oliver Stocken†

Appointed to the Board on 1 June 2004. He is Chairman of Home Retail Group, Deputy Chairman of 3i plc and Chairman of Oval Limited, Rutland plc and Stanhope Group Holdings Limited. Previously he was Group Finance Director of Barclays PLC. Age 65.

13. Lord Turner†

Appointed to the Board on 1 August 2006. He is a non-executive director of United Business Media plc, Siemens Holdings plc and Paternoster UK Limited and is a member of the Board of Trustees of WWF-UK and Save the Children Fund. Previously he was Director General of the CBI and Vice Chairman of Merrill Lynch Europe Limited. Age 51.

Board Committees

Audit and Risk Committee

Rudy Markham (chairman)
Jamie Dundas
Ruth Markland
Lord Turner

Board Nomination Committee

Mervyn Davies (chairman)
Jamie Dundas
Rudy Markham
Ruth Markland

Board Remuneration Committee

Ruth Markland (chairman)
Val Gooding
Paul Skinner
Oliver Stocken
Lord Turner

Corporate Responsibility and Community Committee

Mervyn Davies (chairman)
Peter Sands
Jamie Dundas
Val Gooding

* Also a director of Standard Chartered Bank.

† Independent non-executive director.

Senior Management

Standard Chartered Bank

The directors of Standard Chartered Bank comprise the executive directors of Standard Chartered PLC and the following three senior executives:

Gareth Bullock

Joined Standard Chartered in 1996. He is Director, Middle East, Africa, Europe and the Americas. Most recently he was Group Head of Strategy and prior to that Group Chief Information Officer and CEO Africa. He has held other senior positions in the United Kingdom, Europe, Hong Kong, China and North East Asia. He is a non-executive director of Fleming Family & Partners Limited and of Spirax-Sarco Engineering plc. Age 53.

Mike Rees

Joined Standard Chartered in 1990. He is a director of Standard Chartered Bank and Chief Executive Officer Wholesale Bank. He has held the positions of Chief Financial Officer of Group Treasury, Regional Treasurer in Singapore and Group Head of Global Markets. Age 51.

Group Management Committee

The Group Management Committee as at 27 February 2007 comprises the directors of Standard Chartered Bank and the following senior executives:

Jaspal Bindra

Joined Standard Chartered in 1998. He is General Manager, South East and South Asia. He has previously held the positions of Global Head Client Relationships and Regional General Manager, India. He is a director of Standard Chartered (Thai) Public Company Limited, Standard Chartered Bank Malaysia Berhad, Prime Financial Holdings Limited and Chairman of Scope International Private Limited and Standard Chartered Bank Nepal Limited. Age 46.

Tim Miller

Joined Standard Chartered in 2000. He is Director, People, Property and Assurance and has responsibility for Human Resources, Corporate Real Estate, Compliance and Regulatory Risk, Legal, the Chief Economist and Operational Excellence. He also has functional responsibility for Internal Audit and the Corporate Secretariat. Prior to joining the Group, he was Human Resources Director of GlaxoSmithKline's worldwide manufacturing operations. He is a director of Standard Chartered First Bank Korea Limited and a non-executive director of Michael Page International plc. Age 49.

David Edwards

Joined Standard Chartered in 1999. He is Chief Operating Officer of Wholesale Bank. He has previously held the positions of Group Head, Risk and Group Special Assets Management, Regional General Manager, Middle East and South Asia and Group Head Risk Management. He is a director of Standard Chartered First Bank Korea Limited. Age 53.

Report of the Directors

The directors have pleasure in submitting their report and the accounts of the Company and its subsidiaries for the year ended 31 December 2006.

Activities

The Company is a holding company co-ordinating the activities of its subsidiary undertakings which are principally engaged in the business of banking and the provision of other financial services.

The Chairman's Statement on pages 6 and 7, the Group Chief Executive's Review on pages 8 to 11 and the Business, Financial and Risk Reviews on pages 12 to 49 contain a review of the business of the Group during 2006, recent events and of likely future developments.

Results

The results for the year are set out in the consolidated income statement on page 76.

Share Capital

During the year 1,496,807 ordinary shares were issued under the Company's employee share plans at prices between nil and 987 pence.

On 12 May 2006, 9,960,348 ordinary shares were issued instead of the 2005 final cash dividend. On 11 October 2006, 4,912,941 ordinary shares were issued instead of the 2006 interim cash dividend.

On 12 January 2006, 3,401,290 new ordinary shares were issued as partial consideration for the Group's 20 per cent investment in Fleming Family & Partners Limited, at an average price of 1301 pence per share. On 4 October 2006, 48,500,000 new ordinary shares were issued as a result of an institutional placing, at a price of 1375 pence per share to fund the acquisition of Hsinchu International Bank.

Further details of these issues of ordinary shares and other matters relating to the Company's share capital can be found in note 37 to the accounts.

At the annual general meeting ("AGM") in May 2006 the shareholders granted authority for the Company to buy back up to 131,986,987 of the Company's ordinary shares. This was approximately 10 per cent of the Company's issued ordinary share capital as at 28 February 2006. In addition, at the AGM, the shareholders granted authority for the Company to buy back up to all of the Company's issued preference share capital. The Company did not purchase any of its own ordinary shares or sterling preference shares during 2006 and the directors would only use this authority if they considered that the purchase would benefit the Company and shareholders.

On 2 October 2006, the Company redeemed 328,388 8.9 per cent preference shares of \$5 each which represented all of the US dollar preference shares in issue at that time.

On 8 December 2006 the Company issued 7,500 6.409 per cent preference shares of \$5 each. These US dollar preference shares were issued in the form of American Depository shares and further details can be found in note 37 to the accounts.

Dividends

The directors recommend the payment of a final dividend for 2006 of 50.21 cents per ordinary share to be paid on 11 May 2007 to shareholders on the register on 9 March 2007. The 2006 interim dividend of 20.83 cents per ordinary share was paid on 11 October 2006, making a total of 71.04 cents for the year.

The ordinary shareholders will again be offered the choice to receive their cash dividends in sterling, Hong Kong dollars or US dollars. It is also intended that the share dividend alternative to the cash dividend will be offered during 2007.

Major Interests in Shares and Voting Rights

As far as the directors are aware as at 31 December 2006, Temasek Holdings (Private) Limited ("Temasek") was the only shareholder that had an interest of more than 10 per cent in the Company's issued ordinary share capital.

As at 27 February 2007, the Company had been notified of the following interests of three per cent or more in its issued ordinary share capital.

Shareholder	Number of ordinary shares	Percentage of issued ordinary share capital
Temasek Holdings (Private) Limited	153,365,936	11.0755
Fidelity Investments	68,506,087	4.9473

In addition to the above interests, the Company had been notified that Legal & General Group PLC had a direct interest in 47,526,644 shares in the Company and, as a result, held 3.43 per cent of the total voting rights in the Company.

Loan Capital

Details of the loan capital of the Company and its subsidiaries are set out in note 36 to the accounts.

Fixed Assets

Details of the fixed assets of the Company are set out in note 22 to the accounts. Details of the fixed assets of the Group are set out in notes 22, 24 and 25 to the accounts.

Report of the Directors continued

Directors

The directors of the Company at the date of this report are listed on page 51. All of the directors, except for Lord Turner, held office throughout the year.

Lord Turner was appointed as an independent non-executive director with effect from 1 August 2006 and will offer himself for election by the shareholders at this year's AGM.

Mr Ho KwonPing retired from the Board at the conclusion of the 2006 AGM, Mr B K Sanderson resigned as a director and Group Chairman on 19 November 2006 and Mr H E Norton retired from the Board on 31 December 2006. Mr E M Davies, who had been Group Chief Executive since November 2001, was appointed Group Chairman on 20 November 2006. Mr P A Sands was appointed as Group Chief Executive on 20 November 2006. Mr R H Meddings was appointed as Group Finance Director on 20 November 2006.

Mr J F T Dundas, Ms R Markland, Mr R H Meddings, Mr K S Nargolwala and Mr P D Skinner retire from office by rotation and will offer themselves for re-election at this year's AGM, in accordance with the Company's articles of association.

Sir CK Chow, having completed more than nine years' service on the Board, will offer himself for re-election at this year's AGM, in accordance with the recommendations of the Combined Code.

Mr Meddings and Mr Nargolwala have service contracts with a notice period of one year. Sir CK Chow, Mr Dundas, Ms Markland, Mr Skinner and Lord Turner are non-executive directors and do not have service contracts.

Directors' Interests

The directors' beneficial interests in the ordinary shares of the Company as at 31 December 2006 are shown in the Directors' Remuneration Report on pages 61 to 73.

Qualifying Third Party Indemnities

In February 2006, the Company granted qualifying third party indemnities to the directors of the Company and the directors of Standard Chartered Bank, subject to and on terms consistent with the Company's articles of association and the Companies Act 1985 (as amended by the Companies (Audit, Investigations and Community Enterprise) Act 2004). The indemnities remain in force at the time of this report.

Risk Management

The risk management objectives and policies of the Group, including its policy for hedging risk are set out in the Risk Review on pages 34 to 48. The Group's exposure to credit risk is set out on pages 38 to 44, liquidity risk in note 48 to the accounts, and market risk in note 51 to the accounts. Company-only risks are managed as a part of overall Group risks.

Significant Contracts

There were no contracts of significance during the year in which any of the directors were materially interested.

Related Party Transactions

Details of transactions with directors and officers and other related parties are set out in note 53 to the accounts.

Continuing Connected Transactions

On 20 July 2006, by virtue of its acquisition of a greater than 10 per cent shareholding in the Company, Temasek, together with its associates, became related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Listing Rules of The Stock Exchange of Hong Kong Limited (the "HK Listing Rules") respectively (the "Rules"). Neither Temasek nor its associates are related parties for the purposes of IAS 24.

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates (as defined under the Rules) as a result of such shareholding to the detriment of other shareholders in the Company. Unless transactions which the Company and its subsidiaries undertake with Temasek or its associates are specifically exempt under the Rules or the subject of a specific waiver, they may require a combination of announcement, reporting, shareholder approval, and/or disclosure. To ensure transparency, the Rules also impose additional reporting and disclosure requirements on the Company in respect of certain non-exempt and other transactions with Temasek or its associates.

Since 20 July 2006 the Group has entered into certain continuing connected transactions with Temasek or its associates in the normal course of its business which are not exempt and are subject to the annual reporting and/or shareholders approval requirements of the HK Listing Rules. In accordance with the requirements of the HK Listing Rules details of such transactions as undertaken with Temasek associates and which are required to be reported are set out in the Supplementary Financial Information on page 146. Any such transactions and/or other matters which require shareholder approval will be proposed to the Company's shareholders at the AGM.

The independent non-executive directors of the Company confirm that the continuing connected transactions reported have been entered into by members of the Group with Temasek or its associates:

- in the ordinary and usual course of business of the Group;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the purposes of Rule 14A.38 of the HK Listing Rules, the Company's auditor, KPMG Audit Plc and its associated firms (together "KPMG"), has performed certain agreed-upon procedures on the aforementioned continuing connected transactions for the period 20 July 2006 to 31 December 2006, in accordance with International Federation of Accountants Related Services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information".

Employees

The Group employs almost 60,000 staff in 56 countries and territories. The average number of people employed by the Group in the United Kingdom during the year was 1,290 and their total remuneration for the year was \$176 million. Employees in all the countries and territories where the Group operates have the opportunity to participate in the Group's all-employee sharesave schemes. This encourages their contribution to the Group's performance. Further details of the sharesave schemes are given on page 64 and in note 40 to the accounts.

The employment policies of the Group are designed to meet the relevant social, statutory and market conditions and practices in each country where the Group operates. The Group communicates systematically with its employees on a wide range of issues. This is done by briefings to managers who are encouraged to hold subsequent meetings with staff and by circulars, publications and videos.

The Group recognises its social and statutory duty to employ disabled people and has followed a policy in the United Kingdom by providing, wherever possible, the same employment opportunities for disabled people as for others. If employees become disabled every effort is made to ensure their employment continues, with appropriate training where necessary. Further details of the Group's employees can be found in the Business Review on pages 18 to 21.

Areas of Operation

The Group has over 1,400 branches and corporate offices, as shown on pages 150 and 151.

Major Customers

Taken together, the five largest customers of the Group account for 1.36 per cent of the total interest income and other operating income of the Group in the year ended 31 December 2006.

Creditor Payment Policy

Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Group's policy to pay creditors when the amounts fall due for payment.

Standard Chartered PLC is a holding company and does not trade. Therefore, it is not considered meaningful to give a number of days' purchases outstanding for the Company at 31 December 2006. For the Group's operations in the United Kingdom, there were 57 days' purchases outstanding at 31 December 2006.

Community Investment

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2006, the Group gave \$14.2 million to fund the work of non-governmental organisations (of which \$0.3 million was given to United Kingdom registered charities, focusing on supporting their work outside the United Kingdom). Further details of community projects can be found in the Business Review on pages 22 to 25.

HIV/AIDS Policy

The Group is committed to addressing social, health and human rights issues confronting its employees, their families and the communities in which it operates. The Group recognises that the principal competitive advantage of any business is gained through its employees, and this advantage is only sustainable if they are healthy, skilled and motivated.

HIV/AIDS directly and indirectly impacts the Group's staff and therefore its business. A policy on HIV/AIDS has been developed by the Group to be adopted across all the countries in which the Group operates and will apply to all staff and their families in a manner consistent with existing medical cover. A copy of the Group's HIV/AIDS policy is available to shareholders on the Company's website at:

www.standardchartered.com/sustainability

Environmental Policy

The Group recognises that it should minimise any adverse impact of the conduct of business on the environment. It therefore aims to manage its businesses according to best practice with regard to the use of energy and other resources and by disposing of waste responsibly, by encouraging its customers to ensure that their products, processes and businesses do not damage the environment unnecessarily and by taking environmental considerations into account in business decisions.

A copy of the Group's environmental report is available to shareholders on the Company's website at:

www.standardchartered.com/sustainability

Social, Ethical and Environmental (SEE) Responsibilities

A report on SEE responsibilities can be found on page 60 and further details of the Group's policies on SEE risk can be found on the Company's website:

www.standardchartered.com/sustainability

Corporate Governance

A report on corporate governance is included on pages 56 to 60.

Auditor

A resolution will be proposed at the 2007 AGM to reappoint KPMG as the auditor of the Company.

The directors have taken all necessary steps to make themselves and KPMG aware of any information needed in performing the audit of the 2006 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG is unaware.

Annual General Meeting

The Company's AGM will be held at 12 noon (UK time) (7.00 pm Hong Kong time) on Thursday 3 May 2007 at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU. Details of the business to be transacted at the AGM are included in the accompanying Notice of AGM.

By order of the Board

C Burns

Group Company Secretary
27 February 2007

Corporate Governance

The Board of Standard Chartered PLC is responsible for the overall management of the Group and for ensuring that proper standards of corporate governance are maintained.

This report has been prepared in accordance with the principles and provisions of the Code of Best Practice in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and amended in June 2006 (the "Combined Code"). The directors confirm that throughout the period the Company complied with the provisions of the Combined Code except that the Chairman did not meet the independence criteria upon appointment as set out in the Combined Code, and that meeting major shareholders is not currently part of the induction programme for non-executive directors. Explanations of these exceptions and the rationale for the appointment of the Chairman are given in the sections 'Chairman and Group Chief Executive' and 'Independent Non-Executive Directors' below. Apart from these exceptions, the following report explains how the Company applies the principles of the Combined Code.

The Company is a public company, listed on both the London and Hong Kong stock exchanges, and has sufficient share capital in public hands.

The directors confirm that, throughout the financial year, the Company complied with the provisions of Appendix 14 of the HK Listing Rules.

The directors confirm that the Company has in place a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the HK Listing Rules and that the directors of the Company complied with this code of conduct throughout the financial period.

The Board

The Board is made up of the Chairman, four executive directors and eight independent non-executive directors and is collectively responsible for the success of the Company. All the directors are subject to election by shareholders at the first AGM after their appointment and then to re-election at intervals of no more than three years.

The Board meets regularly and has a formal schedule of matters specifically reserved for its decision. These matters include determining and reviewing the strategy of the Company and the Group, overseeing the Group's compliance with statutory and regulatory obligations and issues relating to the Company's and the Group's capital.

It is also responsible for the Group's structure and areas of operation, financial reporting, ensuring there is a sound system of internal control and risk management and appointments to the Board. The Board delegates matters to the executive directors and other senior management.

The Board has eight scheduled meetings each year. At least two of these meetings are usually held in countries where the Group operates outside the United Kingdom. The directors use these overseas visits to meet staff, corporate customers and government and regulatory officials.

The directors are given accurate, timely and clear information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues.

The following table shows the number of Board and Committee meetings held during the year and the attendance of individual directors.

	Board (Scheduled)	Board (Ad hoc)	Audit & Risk Committee	Audit & Risk Committee (Ad hoc)	Board Nomination Committee	Board Nomination Committee (Ad hoc)	Board Remuneration Committee	Board Remuneration Committee (Ad hoc)	Corporate Responsibility and Community Committee
Number of meetings in 2006	8	4	6	3	2	2	5	1	3
E M Davies*	8	3	—	—	1/1	0/0	—	—	3
P A Sands*	8	4	—	—	—	—	—	—	1/1
Sir CK Chow	8	3	—	—	—	—	—	—	—
M B DeNoma	8	3	—	—	—	—	—	—	—
J F T Dundas	8	4	6	3	—	—	—	—	3
V F Gooding	7	3	—	—	—	—	—	—	3
R H P Markham	7	4	6	3	2	2	—	—	—
R Markland	8	4	6	3	2	2	5	1	—
R H Meddings	8	3	—	—	—	—	—	—	—
K S Nargolwala	8	3	—	—	—	—	—	—	—
P D Skinner	7	3	—	—	—	—	5	1	—
O H J Stocken	7	2	—	—	—	—	4	1	—
Lord Turner*	3/3	2/2	2/2	3	—	—	2/2	1	—
Ho KwonPing*	1/3	0/1	—	—	—	—	1/2	0/0	—
H E Norton*	8	4	4/4	1/1	2	2	5	1	—
B K Sanderson*	7/8	1/2	—	—	1/1	1/1	—	—	2/2

* Mr Davies was appointed as Group Chairman on 20 November 2006 and became Chairman of both the Board Nomination Committee and the Corporate Responsibility and Community Committee on the same day. Mr Sands was appointed as Group Chief Executive on 20 November 2006 and became a member of the Corporate Responsibility and Community Committee on the same day. Lord Turner was appointed as an Independent Non-executive Director on 1 August 2006 and was appointed as a member of both the Audit and Risk Committee and the Board Remuneration Committee on the same day. Mr Ho retired from the Board on 4 May 2006, Mr Sanderson resigned as a director and Group Chairman on 19 November 2006 and Mr Norton retired from the Board on 31 December 2006.

The directors have a range of skills and experience and each brings an independent judgement and considerable knowledge to the Board's discussions. On appointment, each director receives a comprehensive and tailored induction covering the Group's business and operations and also the legal, regulatory and other obligations of a director of a dual-listed company. As well as a formal induction, directors receive training through a formal and structured programme to continually develop and update their knowledge and capabilities. Where an independent non-executive director is appointed to one of the Board's standing committees, additional training is given which is relevant to the committee appointment. Lord Turner was appointed as an independent non-executive director on 1 August 2006 and has completed his induction programme.

The Company has arranged appropriate insurance cover in respect of legal proceedings and other claims against its directors. In addition, the Company has granted qualifying third party indemnities to the directors of the Company subject to and on terms consistent with the Company's articles of association and the Companies Act 1985.

The Board's executive directors are not allowed more than one non-executive directorship of a FTSE 100 company. Details of the directors' other directorships can be found in their biographies on page 51.

Chairman, Deputy Chairman and Group Chief Executive

Mr E M Davies was appointed as Group Chairman on 20 November 2006. Immediately prior to this, Mr Davies had been the Group Chief Executive. In considering its decision to appoint Mr Davies, the Board noted the provisions of the Combined Code regarding such appointments and took into account the complexity of the international banking environment in which the Group operates, the magnitude of the Group and the diversity of its businesses and people. The Board believed that there were significant benefits for the Company in continuity as well as the leadership skills that Mr Davies would bring to the role of Chairman. After careful consideration of all these factors, the Board was unanimous in its decision to appoint Mr Davies. In accordance with the Provision A.2.2 of the Combined Code, the Company's major shareholders were consulted in advance of Mr Davies' appointment. The Board considered it unnecessary to use the services of an external search consultant or open advertising in the process for appointing the Group Chairman.

Mr Davies is a non-executive director of Tesco PLC, Tottenham Hotspur plc and Fleming Family & Partners Limited. He is also chairman of the Appeal Fundraising Board of Breakthrough Breast Cancer and a Trustee of the Sir Kyffin Williams Trust. Significant changes to the external commitments of the Chairman are reported to the Board.

The roles and objectives of the Chairman and the Group Chief Executive are separate and have been approved by the Board.

As announced on 20 November 2006, the Board intends to appoint a Deputy Chairman.

Independent Non-Executive Directors

The Board considers that all of the non-executive directors are independent and has received from each of them the annual confirmation of independence required by the HK Listing Rules. The names and biographies of the non-executive directors are set out on page 51. The non-executive directors are appointed for an initial three-year term and are subject to periodic re-election by shareholders in accordance with the Company's articles of association. The Chairman has regular meetings with the non-executive directors without the executive directors being present.

The reviews of the non-executive directors who have served on the Board for more than six years are covered in the section on the work of the Board Nomination Committee below.

Mr R H P Markham is the Senior Independent Director and can be contacted in writing at the Company's registered office.

Although not part of their induction programme, the non-executive directors have the opportunity, if they wish, to attend meetings with major shareholders and analysts and they receive, in a timely manner, accurate information reflecting the views of the Company's institutional shareholders and other stakeholders. Major shareholders have the opportunity to meet with the Senior Independent Director to discuss any issues or concerns if they wish to do so.

The Board is aware of the other commitments of its non-executive directors and is satisfied that these do not conflict with their duties as directors of the Company. Changes to the commitments of the non-executive directors are reported to the Board.

The terms and conditions of the non-executive directors' appointments are available for inspection at the Company's registered office.

Board Committees

The Board has four standing committees with specific delegated authorities: the Audit and Risk Committee, the Board Nomination Committee, the Board Remuneration Committee and the Corporate Responsibility and Community Committee. Details of these committees and their members are given below.

Audit and Risk Committee

The members of the Audit and Risk Committee are:

Mr R H P Markham (chairman)
Mr J F T Dundas
Ms R Markland
Lord Turner

All the members of the Committee are independent non-executive directors. The Board considers that each member has appropriate professional qualifications and brings a broad experience and knowledge of financial reporting to the Committee's deliberations. The Board is satisfied that the Committee's chairman has recent and relevant financial experience.

The Committee currently has six scheduled committee meetings each year and a further two half-day informal meetings to consider more closely the Group's processes, recent developments in financial reporting and regulatory matters and the way in which these developments will impact or potentially impact, the Group's businesses.

The Committee reviews and monitors the integrity of the Company's annual and interim financial statements, circulars to shareholders and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements contained in them. The Committee also reviews the recommendations for provisions against bad or doubtful loans and other credit exposures. It keeps under review the appropriateness of the Group's accounting policies and considers changes to them. Ultimate responsibility for the approval of the annual and interim financial statements rests with the Board.

At least once a year, the Committee meets separately with each of the external auditor and Group Head of Internal Audit without management being present to discuss matters relating to the auditor's remit and any issues arising from the audit.

In relation to the Group's internal audit function, the Committee's responsibilities include:

- monitoring and assessing the role and effectiveness of the Group's internal audit function and receiving reports from the Group Head of Internal Audit on these matters; and
- considering the appointment, resignation or dismissal of the Group Head of Internal Audit.

In relation to the Group's external auditor, the Committee's responsibilities include:

- considering and making recommendations to the Board on the appointment, re-appointment, resignation or dismissal of the external auditor;
- approving the terms of engagement, nature and scope of the audit;
- reviewing the findings of the audit including any major issues that arose during the course of the audit; and
- reviewing and monitoring the cost effectiveness of the audit taking into consideration relevant UK professional and regulatory requirements and approving the audit fee.

The Committee reviews and reports to the Board on, the Group's compliance with relevant regulatory and statutory requirements. The Committee reviews the Group's internal financial controls and the Group's internal control and risk management systems and reports on these to the Board. Details of the Company's internal controls and how risk is managed can be found below under the heading 'Internal Control'.

Arrangements are in place by which the Company's employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas. These arrangements are covered in the Company's 'Speaking Up' policy, more commonly known as a 'whistle-blowing policy'. The Committee is responsible for reviewing these arrangements and for ensuring that any matters of concern are investigated appropriately.

Board Nomination Committee

The members of the Board Nomination Committee are:

Mr E M Davies (chairman)
Mr J F T Dundas (appointed 23 February 2007)
Mr R H P Markham
Ms R Markland

All of the Committee members, with the exception of Mr Davies, are independent non-executive directors.

The Committee's responsibilities include:

- reviewing the structure, size and composition of the Board and making recommendations with regard to any changes that the Committee deems necessary to ensure the Board has the optimum balance of skills, knowledge and experience;
- where Board vacancies arise, evaluating the skill, knowledge and experience needed to fill the vacancy, and identifying and nominating suitable candidates to the Board; and
- keeping under review the succession plans for the Group relating to both directors and other senior executives and making consequential recommendations to the Board.

The Committee is also responsible for making recommendations for the appointment of the Group Chairman, Group Chief Executive or any other director. The Group Chairman will not chair any meeting at which the Committee is considering the appointment of a successor to the Group Chairman.

In the selection process for new directors, the Committee can consult external advisors. An external search consultant was used in the selection process prior to the appointment of Lord Turner as an independent non-executive director. Before recommending the appointment of a non-executive director, the Committee considers the suitability of a candidate against the skills, knowledge and experience required to produce a balanced Board. In addition, the Committee takes into account whether the candidate would have an appropriate amount of time to devote to their duties.

During the year, the Committee reviewed the Group's succession planning processes and the succession plans relating to the Chairman, executive directors and other senior executives.

Mr R H P Markham has served on the Board for more than six years and the Committee has carried out a rigorous review of his performance and contributions to the deliberations of the Board and the Audit and Risk Committee during 2006. The Committee, as part of its review, has taken into account the need for the progressive refreshing of the Board and believes that Mr Markham continues to be committed to the Company and independent in character and judgement.

Sir CK Chow has served on the Board for more than nine years and at the 2007 AGM will offer himself for re-election in accordance with the provisions of the Combined Code. Having carried out a rigorous review of Sir CK's performance and contribution to the Board during 2006, the Committee believes Sir CK continues to be independent in character and judgement and, in addition, believes that Sir CK's long experience as a director will continue to be invaluable to the Board. The Committee therefore fully supports the proposal for his re-election as an independent non-executive director.

In addition, the Committee has reviewed the performance of the non-executive directors standing for re-election at the 2007 AGM and made recommendations to the Board on their re-election.

Board Remuneration Committee

The members of the Board Remuneration Committee are:

Ms R Markland (chairman)
Miss V F Gooding (appointed 23 February 2007)
Mr P D Skinner
Mr O H J Stocken
Lord Turner

All of the Committee members are independent non-executive directors. The Committee determines the pay and benefits of the Group Chairman, executive directors and senior management. The remuneration of all directors and senior management is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate.

A statement of the Company's remuneration policy for directors and details of the work of the Committee are included in the Directors' Remuneration Report on pages 61 to 73.

Corporate Responsibility and Community Committee

The members of the Corporate Responsibility and Community Committee are:

Mr E M Davies (chairman)
Mr P A Sands
Mr J F T Dundas
Miss V F Gooding

The Committee considers matters relating to how Standard Chartered can build a sustainable business through consideration of environment protection, social investment, economic

development and other corporate responsibility and community matters.

The Committee's responsibilities include:

- ensuring that the Group's corporate responsibility and community aspirations and business activities are aligned;
- responding to emerging sustainability issues arising from new regulation, legislation, stakeholder guidance and reporting;
- promoting the availability of accurate and reliable corporate responsibility and community data; and
- ensuring that the Group is in a position to report annually on Corporate Responsibility and Community activity in line with best practice.

During the year, the Committee received presentations on a range of subjects including the responsible selling and marketing of products and services, the Group's response to protecting the environment and on microfinance and financial inclusion.

The Committee ensures that the Group continues to make progress in its efforts to understand and respond to the concerns and interests of stakeholders. The Group has a formal plan for stakeholder engagement that builds on the comprehensive work already carried out on employee engagement and customer satisfaction. In 2006, this plan focused at a Group level on the socially responsible investment analyst community and on the development and environmental departments within the UK government. The network used to inform the Committee was also widened to include appropriate global stakeholders.

The findings of this stakeholder research, alongside peer analysis and consideration of recognised corporate responsibility benchmarks and indices are used in setting the agendas for the Committee's meetings.

Schedule of Matters Reserved and Terms of Reference

The schedule of matters reserved for the Board, the roles and responsibilities of the Chairman and Group Chief Executive and the terms of reference for the Audit and Risk Committee, the Board Nomination Committee, the Board Remuneration Committee and the Corporate Responsibility and Community Committee are available on the Company's website and available for inspection at the Company's registered office.

Independent Professional Advice

Directors may, in appropriate circumstances, take independent professional advice at the Company's expense. All of the directors have access to the Group Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The appointment and removal of the Group Company Secretary is a matter for the whole Board.

The Board's standing committees are able to take independent professional advice or use external consultants, where appropriate, at the Company's expense.

Performance Evaluation

The Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors.

During 2006, each of the directors, members of the Group Management Committee and the Group Company Secretary completed a questionnaire and details of the comments received were discussed by the Board. In addition, the Audit and Risk Committee, the Board Nomination Committee and the Board

Remuneration Committee each conducted a self-assessment of their effectiveness. A report on the results of the self-assessments was discussed by the Board. It was not considered appropriate for the Corporate Responsibility and Community Committee to carry out self-assessment during 2006 given that its membership and remit were evolving. Individual appraisals of the directors were undertaken during 2006 by the Chairman, Group Chief Executive and Board Nomination Committee as appropriate. The independent non-executive directors, led by the Senior Independent Director, evaluated the Chairman's performance, taking into account the views of all the directors.

During 2005, a formal evaluation of the effectiveness of the Board and its Committees was conducted using the services of an external facilitator.

Relations with Shareholders

The Board recognises the importance of good communications with all shareholders. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. The AGM is used as an opportunity to communicate with all shareholders.

The Combined Code requires companies to post the notice of the AGM to shareholders at least 20 working days before the date of the meeting. The Company aims to achieve this and will always give shareholders the 21 days' notice required by the Companies Act 1985 and the HK Listing Rules. Separate resolutions are proposed for each substantially separate issue. The Company displays the proxy voting results on each resolution at the AGM and on the Company's website. The notice of AGM is also available on audio cassette and CD.

The Company encourages its shareholders to receive the Company's corporate documents electronically. The annual and interim financial statements, notice of AGM and dividend circulars are all available electronically. Shareholders are also able to vote electronically on the resolutions being put to the AGM.

Auditor Independence and Objectivity

The Company has adopted a policy on the use of non-audit services provided by the Company's external auditor, KPMG. The Audit and Risk Committee's pre-approval is required before the Company uses non-audit services that fall within definitions contained in the policy. The non-audit services of KPMG will only be used where the Company benefits in a cost-effective manner and the auditor maintains the necessary degree of independence and objectivity.

In addition to audit-related services, KPMG provided the following types of services in 2006:

- tax advisory and compliance;
- advice and support with due diligence exercises;
- advice on IFRS accounting;
- regulatory reviews and reporting;
- corporate recovery services; and
- risk and compliance advisory services.

Details of the amounts paid to KPMG during the year for audit and non-audit services are set out in note 7 to the accounts.

Going Concern

The Board confirms that it is satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason it continues to adopt the going concern basis when preparing the financial statements.

Internal Control

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. To achieve this, the Board has established a process for the identification, evaluation and management of the risks faced by the Group which operated through the year ended 31 December 2006 and to 27 February 2007, the date the Board approved this annual report and accounts. It should be recognised that such a process can only provide reasonable, not absolute, assurance against material misstatement or loss. This process is reviewed regularly by the Board and meets the requirements of the guidance entitled 'Internal Control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in 1999 and revised in 2005. The system of internal control of the Group is also subject to regulatory oversight in the United Kingdom and overseas.

The effectiveness of the Group's internal control system is reviewed regularly by the Board, its committees, Group management, and Group Internal Audit. The Audit and Risk Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2006 and reported to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit.

Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit and Risk Committee, the Chairman and to the Group Chief Executive. The findings of all adverse audits are reported to the Chairman and to the Group Chief Executive and immediate corrective action is required.

The Risk Review on pages 34 to 48 describes the Group's risk management structure. The Group's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees review regularly the Group's risk profile.

The performance of the Group's businesses is reported regularly to senior line management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts, and the valuation of assets and positions.

Compliance and Regulatory Matters

During 2004, Standard Chartered Bank entered into a Written Agreement with the Federal Reserve Bank of New York and the New York State Banking Department to address deficiencies relating to compliance with applicable federal and state laws,

rules and regulations governing anti-money laundering. The Written Agreement remained in place during 2006. However, the Board believes that during the year the Bank achieved substantial compliance with the terms of the Written Agreement. The status of this matter continues to be monitored closely by the Board.

Group Code of Conduct

The Board has approved a Group Code of Conduct relating to the lawful and ethical conduct of business. These requirements are supported by the Group's core values. The Group Code of Conduct has been communicated to all employees. All employees are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

Social, Ethical and Environmental Responsibilities

The Group complies with the guidelines issued by the Association of British Insurers on socially responsible investment and reporting on social, ethical and environmental ("SEE") matters and is committed to the communities and environments in which it operates. The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. The Group has established and maintains policies and procedures in relation to SEE related risks. Details of these policies can be found on the Company's website: www.standardchartered.com/sustainability. Through the Group's risk management structure and control framework, the Board receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters. Formal training arrangements are in place for key SEE issues, including arrangements for directors.

Designated policy owners monitor risks in their area. They also work with line management to assist them in designing procedures to ensure compliance with these requirements. In every country, the Country Management Committee ("Manco") supported by the Country Operational Risk Group ("CORG") is responsible for ensuring there are risk management frameworks in place to monitor, manage and report SEE risk. The Country Chief Executives chair both the Mancos and CORGs.

Compliance with these policies and procedures is the responsibility of all managers. In assessing, incentivising and rewarding performance, guidance to managers was published during 2002. This explicitly states that account should be taken of adherence to all relevant Group policies, including those associated with SEE risk. Significant exceptions and emerging risks are escalated to senior management through clearly documented internal reporting procedures such as Manco.

Key areas of risk are those associated with customers' social issues and any impact they may have on the natural environment. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on the Group's business. These risks are implicitly recognised in reaching lending decisions explicitly identified in the Group's lending policies. During 2006, the Group adopted the revised Equator Principles 2 that set procedures, based on the International Finance Corporation guidelines, for recognising the environmental and social impacts and risks associated with project finance. The Principles have been embedded in the Group's project finance lending policy and procedures.

The Group continues to review and, where appropriate, strengthen its money laundering prevention policies, procedures and training.

The Board is not aware of any material exceptions to its policies.

Directors' Remuneration Report

This report has been prepared by the Board Remuneration Committee and has been approved by the Board as a whole.

The report comprises the following sections:

- Background information on the Board Remuneration Committee's (the "Committee's") members, role and advisors;
- The Group's remuneration policy for executive directors and other employees;
- Summary of recent changes to executive remuneration and the Group's share plans;
- Outline of the remuneration arrangements for the Group Chairman, executive directors and non-executive directors;
- Detailed information on the Group's share plans;
- Tabular information on directors' emoluments, pension arrangements and share awards; and
- Tabular information on highest paid individuals.

Background Information on the Committee Committee Membership

In 2006, the Committee comprised the following independent non-executive directors:

Ms R Markland	(Chairman from 4 May 2006)
Mr P D Skinner	
Mr O H J Stocken	
Lord Turner	(appointed 1 August 2006)
Mr Ho KwonPing	(retired 4 May 2006)
Mr H E Norton	(retired as Chairman 4 May 2006 and as a member on 31 December 2006)

Role of the Committee

During 2006, the Committee met six times. Details of attendance at meetings by Committee members are shown on page 56.

The Committee has specific terms of reference which are placed on the Group's website (www.standardchartered.com). It considers and recommends to the Board the Group's remuneration policy and agrees the individual remuneration packages of the Group Chairman, Group Chief Executive and all other executive directors. No directors are involved in determining their own remuneration.

The Committee also reviews and approves the remuneration of certain other highly paid senior management of the Group and advises on any major changes in employee remuneration throughout the Group, including the continuous review of incentive schemes to ensure that they remain appropriate.

Advisors to the Board Remuneration Committee

In 2004, the Committee appointed Kepler Associates as its independent advisors. During the year, the Committee reappointed Kepler Associates to advise it on a range of executive remuneration-related issues for a further 12 month period. Kepler Associates does not provide any other advice or services to the Group.

In addition, during 2006, the Committee received advice from the Director of People, Property and Assurance (Mr T J Miller), the Group Head of Human Resources (Mrs T J Clarke) and the Group Head of Reward (Mr N A Cuthbertson). Their advice draws on formal remuneration survey data provided by McLagan Partners and Towers Perrin.

Towers Perrin also provided advice to the Group on executive remuneration issues as well as retirement consulting issues in North America and, together with Clifford Chance LLP, on the

design and operation of the Group's share plans. Clifford Chance LLP also advises on issues relating to executive directors' contracts. McLagan Partners also provided advice to the Committee on market practice in variable compensation plans within the wholesale banking sector.

Remuneration Policy Group

The success of the Group depends upon the performance and commitment of talented employees. The Group's reward programmes support and drive its business strategy and reinforce its values. Its existing remuneration policy for 2006 and, so far as practicable, for subsequent years is to:

- support a strong performance-oriented culture and ensure that individual rewards and incentives relate directly to the performance of the individual, the operations and functions in which they work or for which they are responsible, the Group as a whole and the interests of shareholders; and
- maintain competitive rewards that reflect the international nature of the Group and enable it to attract and retain talented executives of the highest quality internationally. Many of the Group's employees bring international experience and expertise to the Group and the Group recognises that it recruits from an international marketplace.

The Committee reviews the remuneration policy on a regular basis against significant regulatory developments, market practice and shareholder expectations.

Executive Directors

Target remuneration levels for the executive directors are set with reference to individual experience as well as the median of the FTSE 30 and the Group's international competitors. These two groupings have business characteristics similar to the Group such as international scope of operations, complexity and size (both in financial terms and with regard to numbers of employees), and represent organisations which compete alongside the Group for talent.

Although target remuneration levels are aligned to the market, excellent performance by both the Group and by the individual executive director is rewarded with higher bonus levels and share awards, taking potential total target remuneration to the upper quartile or higher of the Group's key international competitors.

As the table below demonstrates, each executive director's target remuneration is structured to give the heaviest weighting to performance-related elements.

	Percentage of indicative total target remuneration
Base Salary	35%
Cash Bonus	30%
Long-Term Incentives*	35%

* Includes the element of the annual bonus deferred in shares and an expected value of target share awards.

Other Employees

The Committee considers the remuneration policy in the context of all employees across the Group.

Base salaries of employees are determined in a similar way to those of executive directors. The Group's approach is to ensure that target total compensation is benchmarked to the median of the relevant market in which the individual is employed. Potential total compensation is set at upper quartile or higher for excellent individual and business performance.

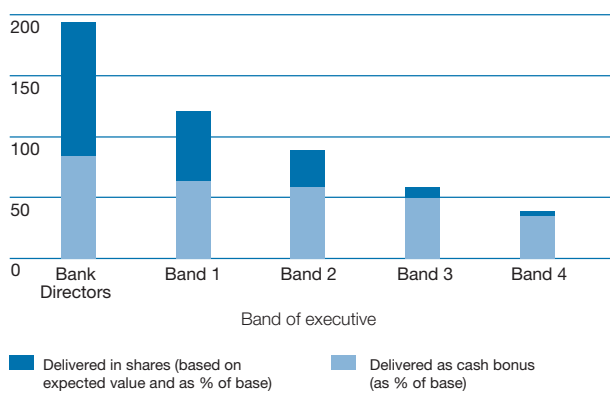
Directors' Remuneration Report continued

In addition:

- all employees are eligible to receive a discretionary bonus dependent upon performance and their contractual position;
- all employees are eligible to participate in the Group's all-employee sharesave schemes;
- core benefits are provided to all employees worldwide based on local regulations and competitive practice. These will normally include retirement benefits, medical insurance, life assurance and annual leave;
- all employees are eligible to receive an award under one or more of the Group's discretionary share schemes depending on performance and potential. The Group is actively seeking to extend the level of equity participation enabling more employees to share in the Group's success, rewarding and retaining talent throughout the Group at all levels. In 2004 and 2005, over 1,250 and 1,000 employees respectively received a discretionary share award for the first time. In 2006, a further 1,300 were added to this total; and
- the Group is keen that an element of each employee's total compensation is performance-related. The proportion of this variable compensation (which might be delivered through bonus and share awards) increases the more senior the employee is. In addition, as the chart below shows, the balance of shares as opposed to cash also increases with seniority. The chart also shows the typical level of target variable compensation for senior executives/management (the Group's bands 1-4) expressed as a percentage of base salary.

Breakdown of target variable compensation between cash and shares

As a percentage of base salary



Although the above principles apply Group-wide, there is some variation in how compensation is delivered. The Group employs almost 60,000 employees worldwide in 56 countries and territories. There are differing local market conditions which means compensation is often structured in different ways (for example, base salaries are not always the only element of core compensation).

Furthermore, due to the different costs of living in the countries in which the Group operates and fluctuations in foreign exchange rates, the Committee does not consider a ratio comparison between executive directors and non-Board employees to be a useful way of assessing the fairness of the Group's practices.

Summary of recent changes in approach to executive compensation and the Group's share plans

Since 2003, the Committee has implemented a series of changes designed to provide a better mix of performance related compensation, while keeping the overall value of

incentives awarded to executives for on-target performance broadly unchanged.

Following a broader review of the Group's long-term incentive plans in 2005, the Committee sought shareholder approval for the following changes at the 2006 AGM. Following this approval:

- certain executive share option awards have been removed from the remuneration package of executive directors;
- the maximum award under the 2001 Performance Share Plan ("PSP") has been increased from 200 per cent to 400 per cent of base salary per annum, so that these awards are of a broadly equivalent expected value to what was previously provided under the 2000 Executive Share Option Scheme ("2000 ESOS") and PSP combined;
- the Total Shareholder Return ("TSR") and earnings per share ("EPS") performance conditions under the PSP have been revised to make them more challenging;
- participation under the PSP has been increased so that it replaces the 1997 Restricted Share Scheme ("1997 RSS") as the key long-term incentive plan for approximately a further 250 senior executives; and
- the Restricted Share Scheme ("RSS") has been amended with broadly the same terms and conditions as the 1997 RSS.

Remuneration Arrangements for Executive Directors Base Salaries

Salary levels are reviewed annually by the Committee taking account of the latest available market data.

Any increases in annual base salary are normally effective from 1 April of the relevant year. The average sterling salary increase for executive directors in 2006 (effective 1 April 2006) was 7.09 per cent. The increases in base salary were intended to align salary levels to those within the market. The annual base salary levels of executive directors as at 1 January 2006 and 31 December 2006 were as follows:

	1 January 2006	31 December 2006	Increase as a percentage of base salary
P A Sands	\$967,628 (£525,000)	\$1,013,705 (£550,000)	4.76%
M B DeNoma	\$792,533 (£430,000)	\$857,042 (£465,000)	8.14%
R H Meddings	\$792,533 (£430,000)	\$857,042 (£465,000)	8.14%
K S Nargolwala	\$792,533 (£430,000)	\$857,042 (£465,000)	8.14%

Following Mr Sands' appointment as Group Chief Executive, the Committee reviewed market data on CEO compensation and decided to increase his base salary from £550,000 to £750,000 per annum, with effect from 1 January 2007. Mr Davies' base salary, in his capacity as Group CEO, was £800,000 as at 1 January 2006 and £850,000 at the end of the year, an increase of 6.25 per cent. Details of Mr. Davies' new package are set out on pages 65 and 66.

Annual Performance Bonus

Eligibility Criteria

Executive directors (and most employees) are eligible to receive a discretionary annual bonus. The objective of the annual bonus is to focus participants on the achievement of annual objectives, which align the short-term performance of the Group with the creation of shareholder value.

Plan Mechanics

The target and maximum award levels for executive directors are 125 per cent and 200 per cent of base salary respectively. Two-thirds of any bonus payment is payable immediately in cash. The balance is deferred into shares in the Company, which are held for up to one year before being released to the executive. The deferred element is forfeited if the executive leaves voluntarily during that period. Notional dividends accrue on deferred shares during the vesting period and are delivered in the form of shares.

Bonus Pools

The Committee has oversight on the overall spend under the Group's Annual Bonus Plan in which executive directors and employees participate. The bonus pool size is linked to the Committee's formal assessment of Group performance by considering a number of quantitative and qualitative measures, including earnings per share; revenue growth; costs and cost control; bad debts; operating profits; risk management; cost to income ratio, total shareholder return, corporate social responsibility and customer service.

Determining Individual Awards

Executive directors' bonus awards are made based on Group (as described above) and individual performance.

Personal performance is appraised taking account not only of the results achieved by the individual but also their support of the Group's values and contribution to the collective leadership of the Group. The 'values' principle is applied throughout the organisation. Each executive director has written objectives which are presented to the Committee at the start of the financial year and then assessed at the year-end.

The importance of individual and Group performance as a determinant of the level of awards is reflected in the variation of actual bonus award levels made to executive directors in recent years.

	Min award actually made (as percentage of base salary)	Max award actually made (as percentage of base salary)	Target award (as percentage of base salary)	Max award permitted (as percentage of base salary)
2006	161%	191%	125%	200%
2005	154%	200%	125%	200%

Long Term Incentives

2001 Performance Share Plan (the "PSP")

Outline of the PSP

The PSP is designed to be an intrinsic part of total remuneration for the Group's executive directors and a growing number of the Group's 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 Group. The significance of the PSP as a percentage of executive directors' total potential remuneration is one of the strongest indicators of the Group's commitment to paying for demonstrable performance.

Under the PSP, awards of deferred rights or nil price options to acquire shares are granted to the individual and are exercisable after the third, but before the tenth anniversary of the date of grant, if the individual is still employed by the Group.

The target and maximum levels of award are 150 per cent and 400 per cent of base salary respectively in any one year, with a working maximum of 325 per cent. Awards are entirely discretionary and are based on directors' individual performance.

As shown in the table below, there has been variation in the levels of share awards made to executive directors, again illustrating the importance the Group places on individual performance. A performance test is therefore effectively applied both at the time of award and upon vesting. The table shows the face value of the awards made in recent years.

	Min award (as percentage of base salary)	Max award (as percentage of base salary)	Target award (as percentage of base salary)	Max award permitted under rules (as percentage of base salary)
2006	275%	350%	150%	400%
2005	175%	200%	100%	200%

At its meeting in February 2007, the Committee recommended the following proposed PSP awards for executive directors in respect of performance for the financial year ended 31 December 2006.

	Proposed PSP Awards	
	Face value (£000s)	Percentage of current base salary
P A Sands	2,063	275%
M B DeNoma	1,225	250%
R H Meddings	1,275	250%
K S Nargolwala	1,416	275%

The Committee also proposed that Mr Davies be granted a final PSP award of £2.6 million in respect of his performance as Group Chief Executive for the financial year ending 31 December 2006. This award is equivalent to 306 per cent of his former base salary.

Performance Conditions

The Committee will set appropriate performance conditions each time that awards are made under the PSP. Half of the award is dependent upon the Group's TSR performance compared to that of a comparator group at the end of a three-year period. The other half of the award will be subject to an EPS growth target applied over the same three-year period.

The rationale for the selection of these performance conditions is set out in the following table:

TSR	Measuring growth in share price plus dividends paid to shareholders during that period, relative TSR is recognised as one of the best indicators of whether a shareholder has achieved a good return on investing in the Group relative to a basket of companies or a single index.
EPS	An EPS performance condition provides an appropriate measure of the Group's underlying financial performance.

TSR Element

The constituents of the TSR Comparator Group are set out in the table below:

ABN AMRO	HSBC
Bank of America	JP Morgan Chase
Bank of East Asia	Lloyds TSB
Barclays	Overseas Chinese
Citigroup	Banking Corporation
DBS Group	Royal Bank of Scotland
Deutsche Bank	United Overseas Bank
HBOS	Standard Chartered

Directors' Remuneration Report continued

The percentage of award which will normally be exercisable at the end of the relevant three-year performance period is as follows:

Position within Comparator Group	Percentage of award exercisable
9th – 15th	Nil
8th	15
7th	22
6th	29
5th	36
4th	43
1st – 3rd	50

The Committee believes that it is preferable to measure TSR performance using a local currency approach. This is considered the most appropriate approach given the international composition of the Comparator Group, particularly as a significant proportion of comparator companies' profits are in the same currency as their primary listing. This local currency approach measures the real impact for a shareholder focusing on relative stock movement rather than taking into account exchange rate fluctuation.

EPS Element

The percentage of award which will normally be exercisable at the end of the relevant three-year performance period is as follows:

Increase in EPS	Percentage of award exercisable
Less than 15%	Nil
15%	15
30% or greater	50

The proportion of the award which may be exercised for EPS growth between 15 per cent and 30 per cent is calculated on a straight-line basis.

Vesting of Awards

The Committee is responsible for approving the vesting of all awards made to executive directors under the PSP.

The Committee recently reviewed whether the performance conditions on the awards granted in 2004 were satisfied at the end of December 2006. The Committee determined that 100 per cent of the shares subject to each award has now vested. For awards granted in 2006, normalised EPS of 153.7 cents was used as a base EPS figure.

2000 Executive Share Option Scheme (the "2000 ESOS") Outline of the 2000 ESOS

Following shareholder approval of the proposed changes to the PSP at the 2006 Annual General Meeting, it is proposed that no further awards will be made under the 2000 ESOS. However, the scheme will be retained for use in exceptional circumstances or if there is a subsequent change in policy in response to future market trends.

Executive share options to acquire ordinary shares in the Company 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 normally only be exercised if a performance condition is satisfied.

Performance Conditions

Options awarded since January 2004 are subject to a sliding scale EPS target without re-testing, as set out below.

Increase in EPS (over performance period)	Percentage of award exercisable
Less than 15%	Nil
15%	40
30% or greater	100

The proportion of the award which may be exercised for EPS growth between 15 per cent and 30 per cent will be calculated on a straight-line basis.

Vesting of Awards

The Committee recently reviewed whether the performance conditions on the awards granted in 2004 under the 2000 ESOS were satisfied at the end of December 2006. The Committee determined that 100 per cent of the options subject to each award has now vested.

Restricted Share Scheme (the "RSS")

The RSS is designed to motivate and retain high performing and high potential staff at any level of the organisation who the Group wishes to motivate and retain.

Executive directors are not generally eligible to participate in the RSS. However, upon recruitment to the Group, awards may be made on an exceptional basis, for example, to newly appointed executive directors to compensate such directors for share awards forfeited on leaving their previous employer. No such awards have been made since 2003.

Under the RSS, the value of shares awarded in any year to any individual may not exceed two times their base salary. 50 per cent of the award vests two years after the date of grant and the balance after three years. The RSS, in line with other similar schemes operated by our competitors, does not have performance conditions.

Along with the all-employee sharesave schemes detailed below, the RSS plays an important part in the Group's ambition to increase employee share ownership at all levels across its operations internationally.

All-employee Sharesave Schemes

The Group believes strongly in encouraging employee share ownership at all levels in the organisation. It seeks to engage employees in the performance of the Group, align their interests more closely with those of shareholders and offer them an opportunity for long-term savings and a share in the Group's financial success which they help to create. The Group has operated a UK sharesave scheme since 1984 in which all UK-based employees are eligible to participate. In 1996 the International Sharesave Scheme was launched and made available to all employees based outside the UK.

Under the UK and the International Sharesave Schemes, employees have the choice of opening a three-year or a five-year savings contract. Within a period of six months after the third or fifth anniversary, employees may purchase ordinary shares in the Company. 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. Currently 37 per cent of employees globally participate in the Group's all-employee sharesave schemes (2005: 41 per cent). There are no performance conditions attached to options granted under the all-employee sharesave schemes.

In some countries in which the Group operates it is not possible to operate sharesave schemes, typically because of securities laws, regulatory or other similar issues. In these countries the Group offers an equivalent cash-based scheme to its employees.

1994 Executive Share Option Scheme (closed)

No awards have been made under this scheme since August 1999 as the scheme was replaced by the 2000 ESOS. Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price is the share price at the date of grant and options can only be exercised if EPS increases by at least 15 per cent over three consecutive years.

Shareholding Guidelines

The Group operates a shareholding guideline policy which aims to align the interests of executives with shareholders by ensuring that they build up a significant equity stake in the Company. The key aspects of the guidelines are as follows:

- There is a single shareholding target for employees at specific levels.
- The current guideline levels are as follows:

Group CEO	at least 100,000 shares
Group Executive Directors	at least 60,000 shares
Standard Chartered Bank Directors	at least 40,000 shares
Other Senior Management	at least 10 – 15,000 shares

- Executives will be expected to retain any shares acquired on the exercise of awards granted under the 2000 ESOS, the PSP and the Deferred Bonus Plan until such time as the shareholding guideline is satisfied. However, executives may sell sufficient shares to pay for any tax and exercise price (if any). Vested but unexercised restricted share awards and interests under the Deferred Bonus Plan count towards the guideline level.
- The Committee annually reviews the progress made by executives in terms of meeting their guideline targets. It will also continue to review the guideline levels to ensure they remain challenging and appropriate.

Retirement Benefits

All of the executive directors are eligible for retirement benefits. The Group policy is to provide a retirement benefit to executive directors, equivalent to two-thirds of base salary for those who have completed at least 20 years' service with the Group at retirement.

The retirement benefits are provided through a combination of approved and/or unapproved defined benefit and cash structures depending upon when the executive director joined the Group and his geographical location. Executive directors are given the opportunity to waive a proportion of any potential bonus to enhance their unfunded unapproved retirement benefits. Any amounts waived in respect of 2006 are shown on page 69 and the additional pension benefits have been calculated by the Group's actuary using the assumptions adopted for IAS 19 reporting.

The defined benefit plans comprise a combination of the Standard Chartered Pension Fund, an approved non-contributory scheme, and an unapproved retirement benefit scheme. The unapproved scheme is unfunded but the benefits are secured by a charge, in the name of an independent trustee, over specific Group assets. The unapproved unfunded retirement benefit scheme provides that part of the benefit which exceeds the new lifetime allowance. In other respects the terms of the unapproved

scheme are designed to mirror the provisions of the Standard Chartered Pension Fund. On the death in service of an executive director, pension benefits are available to a spouse and dependant children and a lump sum is payable.

Base salary is the only element of remuneration which is pensionable.

The Group's current pension arrangements have been reviewed in the light of the government's regulations on pension simplification. No change has been made to the level of benefits being provided as a result of this review. However, where the benefits provided by the approved Standard Chartered Pension Fund were previously less than the maximum allowable, part of the benefits provided on an unapproved basis have been transferred to the approved scheme to maximise the overall tax efficiency of the arrangements.

Executive Directors' Contracts of Employment

The Group policy is for all executive directors to receive and be required to give 12 months' notice.

The dates of the executive directors' contracts of employment are as follows:

Mr P A Sands	31 December 2003
Mr M B DeNoma	11 December 2003
Mr R H Meddings	12 December 2003
Mr K S Nargolwala	14 December 2006

All executive directors have contracts subject to 12 months' rolling notice. These terminate automatically at the first annual general meeting following the executive directors' 60th birthday.

The contracts contain payment in lieu of notice ("PILON") provisions which can be exercised at the Group's discretion. The PILON would comprise an amount equal to 12 months' base salary, pension contributions/entitlement and certain benefits and allowances (such as life assurance and car allowance). The amount of any bonus payable as part of a PILON is determined by the Committee taking into consideration individual and Group performance. Any payment under the PILON would be paid in quarterly instalments and be subject to mitigation.

There are special provisions which apply in the event that the Company terminates the executive's contract in the 12 months following a change of control without giving notice. These provide that, if the executive's contract is terminated by the Group (other than where summary dismissal is appropriate or the executive serves out notice), the Group will pay in four equal instalments an amount equal to 12 months' base salary, bonus, pension contributions/entitlement and certain benefits and allowances. The amount of bonus payable in respect of the 12 months following the date of termination is the executive's target bonus. The amount of bonus payable in respect of the performance period which the executive director worked prior to termination will be decided by the Committee taking into consideration individual and Group performance, unless such a period is less than six months, in which case a pro rata target bonus is payable.

Group Chairman Contract

Mr E M Davies was appointed as Group Chairman on 20 November 2006. Mr Davies' contract is subject to 12 months' rolling notice, albeit that the contract automatically expires on 31 December 2011. The terms of his contract governing PILON provisions and payments on termination are similar to those outlined above in relation to executive directors.

Directors' Remuneration Report continued

Compensation

In 2006, in his role as Group Chief Executive, Mr Davies received a base salary of £850,000 and was eligible to participate in the Group's annual bonus plan and discretionary share plans. As detailed on page 68, the bonus paid in February 2007 and the share awards to be made in March 2007 were in respect of the financial year ended 31 December 2006.

From 1 January 2007, in his new role as Group Chairman, Mr Davies is paid a base fee of \$1,198,015 (£650,000) per annum, payable in cash. In addition, he is provided with a car and driver, private healthcare provision and life assurance coverage. The Chairman will no longer be eligible to participate in either the Group's annual bonus or retirement plans or to receive future discretionary share awards. The Chairman's fees will be reviewed again in two years' time.

Non-executive Directors of Standard Chartered PLC

The fees of the non-executive directors are determined by the Chairman and the executive directors and are non-pensionable. Non-executive directors' fees are reviewed at least every two years and, as with executive directors' remuneration, reflect the international nature of the roles which they perform. Basic annual fees and committee fees are set to be competitive against the Group's international comparator group. The non-executive directors' fees were reviewed in April 2006. Increases in fee levels, particularly for involvement in committees, reflect, in part, the growing regulatory and governance responsibilities resulting in an increase in the time commitment required by non-executive directors.

Following the review, basic annual fees were increased from \$101,371 (£55,000) to \$110,586 (£60,000) on 1 April 2006. Additional fees for ordinary membership or chairmanship of a Board committee are as follows (fees prior to review are shown in *italics*):

Committee	Ordinary membership	Chairmanship
Audit and Risk	\$27,647 (£15,000) <i>\$18,431 (£10,000)</i>	\$73,724 (£40,000) <i>\$64,509 (£35,000)</i>
Board Nomination	\$5,529 (£3,000) <i>\$5,529 (£3,000)</i>	N/A*
Board Remuneration	\$23,039 (£12,500) <i>\$18,431 (£10,000)</i>	\$46,078 (£25,000) <i>\$46,078 (£25,000)</i>
Corporate Responsibility and Community ("CRC")	\$9,216 (£5,000) <i>\$9,216 (£5,000)</i>	N/A*

* E M Davies is chairman of the CRC Committee and the Board Nomination Committee. As Chairman, he does not receive any fees in his capacity as a member of either Committee.

An additional annual fee of \$36,862 (£20,000) is payable to the Senior Independent Director to reflect the further workload that is associated specifically with this role. This was not increased during the recent review.

Further detail on non-executive directors' fees is set out on page 68.

Former Director

As outlined to the Stock Exchange on 20 November 2006, Mr B K Sanderson stepped down as Group Chairman on 19 November 2006. However, Mr Sanderson will remain employed until 31 March 2007 in order to provide an orderly transition and to undertake specific ex-officio activities on behalf of the Group. His contract of employment, dated 22 April 2005, was subject to 12 months' rolling notice and contained PILON provisions. In accordance with the terms of his contract, Mr Sanderson will, on termination, receive a PILON comprising

an amount equal to 12 months' base fee and certain benefits and allowances. The PILON will be paid in four equal quarterly instalments of £203,750 starting on 25 April 2007, subject to the obligation to mitigate contained in his contract.

Details of Non-executive Directorships held by the Chairman and Executive Directors

Certain directors serve as non-executive directors of other companies. Details of these directorships are contained on page 51. Details of non-executive fees of the Chairman and executive directors are shown below:

Name	Organisation	Current annual fees
E M Davies	Tesco PLC	\$130,860 (£71,000)* inclusive of any committee fees
	Tottenham Hotspur PLC	\$9,215 (£5,000)*
	Fleming Family & Partners Limited	No fees payable
M B DeNoma	MasterCard International (member of the Asia Pacific Regional Advisory Board)	No fees payable
R H Meddings	Indo British Partnership Network	No fees payable
K S Nargolwala	Singapore Telecommunications Limited	No fees payable
	Tate & Lyle PLC	\$80,175 (£43,500)*
	VISA International (member of the Asia Pacific Regional Board)	No fees payable

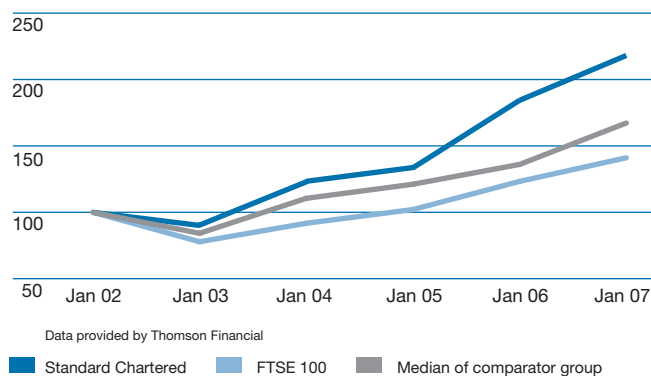
* Indicates fees are retained by the director.

Performance Graph

The graph below shows the Group's TSR performance on a cumulative basis over the last five years alongside that of the FTSE 100 and the PSP comparator group. The FTSE 100 provides a broad comparator group against which the Group's shareholders may measure their relative returns. The Company is a constituent member of the FTSE 100 Index and the London Stock Exchange is the principal exchange for the Company's shares.

Total Shareholder Return Performance Graph

Percentage change in TSR over five year period



Miscellaneous Long Term Incentive-related Matters

Employee Benefit Trusts

The Group has two employee benefit trusts which are administered by an independent trustee and which hold ordinary shares to meet various obligations under the Group's incentive plans. One trust (the "2004 trust") is used in conjunction with the 2004 Deferred Bonus Plan. The other trust (the "1995 trust") holds shares to satisfy the exercise of awards under the Group's various share plans.

The respective holdings of the trusts are as follows:

	31 December 2006	31 December 2005
1995 trust	2,148,874	13,631,747
2004 trust	311,157	409,160

As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 1985, to have an interest in the shares held in the trusts.

Dilution Limits

The Group's existing share plans contain various limits which govern the amount of awards that may be granted and also the amount of shares which may be issued to satisfy any subsequent exercise of awards. These limits, which are monitored, are in line with those stated in the Association of British Insurers' corporate guidelines. Under the terms of the Company's listing on the Stock Exchange of Hong Kong, there is an additional limit which provides that awards under any plan cannot be granted (whether to be satisfied through the issue of new shares or market purchased shares) which would cause the total number of shares under option (all schemes) to exceed ten per cent of share capital at that time.

Vesting Provisions on a Change of Control

The rules of the PSP do not provide for automatic vesting in the event of a change in control. However, the rules also provide that the number of shares subject to the award be pro-rated, based on the length of the shortened performance period. The Committee may 'at its discretion, and acting fairly and reasonably', determine the extent to which awards vest having regard for the performance of the Group in the period since the date of grant.

International Financial Reporting Standards

Details on how share awards have been expensed under IFRS 2 are set out in note 40 to the accounts.

During 2005, the Committee considered the impact of the International Financial Reporting Standards on performance measurement for the Group's share schemes. An approach to measuring EPS performance for PSP and 2000 ESOS awards was agreed by the Committee, which will ensure that performance is measured on a consistent basis without resulting in either advantage or disadvantage to participants.

General

The middle market price of an ordinary share at the close of business on 31 December 2006 was 1492 pence. The share price range during 2006 was 1215 pence to 1540 pence per share (based on closing middle market prices). Full details of the directors' shares and options can be found in the Company's register of directors' interests.

The foreign exchange rates used in this directors' remuneration report are based on the average rates throughout the relevant financial year. The rates are £1:\$1.8431 (2006) and £1:\$1.8202 (2005).

Directors' Remuneration Report continued

Audited Information Remuneration of Directors

Directors	Notes	2006					2005					2006	2005
		Salary/ fees \$000	Cash bonus ^(a) \$000	Deferred bonus ^(b) \$000	Benefits ^(c) \$000	Total \$000	Salary/ fees \$000	Cash bonus ^(a) \$000	Deferred bonus ^(b) \$000	Benefits ^(c) \$000	Total \$000	Expected value of shares ^(d) \$000	Expected value of shares ^(d) \$000
E M Davies	(e)(f)	1,584	1,775	973	99	4,431	1,473	1,765	961	64	4,263	2,374	1,835
Sub total		1,584	1,775	973	99	4,431	1,473	1,765	961	64	4,263	2,374	1,835
P A Sands	(f)	1,002	1,296	639	66	3,003	933	1,281	631	63	2,908	1,335	1,204
M B DeNoma	(g)	1,041	926	456	501	2,924	1,008	976	481	457	2,922	1,003	830
R H Meddings		841	841	480	48	2,210	776	821	466	41	2,104	1,003	863
K S Nargolwala	(g)	327	496	493	212	1,528	795	976	481	182	2,434	1,094	830
Sub total		3,211	3,559	2,068	827	9,665	3,512	4,054	2,059	743	10,368	4,435	3,727
Sir CK Chow	(h)	266	–	–	–	266	260	–	–	–	260	–	–
J F T Dundas	(e)(f)(i)	143	–	–	–	143	120	–	–	–	120	–	–
V F Gooding	(f)(i)	117	–	–	–	117	106	–	–	–	106	–	–
R H P Markham	(e)(i)(k)	185	–	–	–	185	169	–	–	–	169	–	–
R Markland	(e)(i)(i)	176	–	–	–	176	142	–	–	–	142	–	–
P D Skinner	(i)	130	–	–	–	130	118	–	–	–	118	–	–
O H J Stocken	(i)	130	–	–	–	130	118	–	–	–	118	–	–
Lord Turner	(i)(i)(i)	67	–	–	–	67	–	–	–	–	–	–	–
Ho KwonPing	(n)	42	–	–	–	42	118	–	–	–	118	–	–
H E Norton	(m)	195	–	–	–	195	206	–	–	–	206	–	–
B K Sanderson	(o)	1,678	–	–	2	1,680	1,446	–	–	2	1,448	–	724
Sub total		3,129	–	–	2	3,131	2,803	–	–	2	2,805	–	724
Total		7,924	5,334	3,041	928	17,227	7,788	5,819	3,020	809	17,436	6,809	6,286

Notes

- (a) The cash bonus amounts shown here for 2006 are net of any amounts waived to provide additional pension benefits. See page 69 for further details.
- (b) The amounts shown in the deferred bonus column represent the amount of bonus that will be paid to an employee benefit trust to acquire shares in the Company of an equivalent value.
- (c) The benefits column includes amounts relating to car allowances and medical and life insurance benefits. Mr DeNoma and Mr Nargolwala carry out their duties overseas and have their remuneration adjusted to take local living costs into account. This adjustment is to put them in a position, after taxation differentials, where they are no worse off as a result of carrying out their duties overseas. The benefits column for these directors also includes additional benefits, such as allowances for working overseas, the provision of accommodation or education of children. For Mr DeNoma and Mr Nargolwala, these allowances and benefits amounted to \$500,899 (2005: \$456,812) and \$212,490 (2005: \$182,111), respectively.
- (d) The value of share awards is an expected value of any performance share awards granted during the course of the financial year. The values are based on an initial value adjusted for factors such as performance conditions, risk of forfeiture and lack of dividends.
- (e) Member of the Board Nomination Committee. Mr Davies was appointed to this Committee on 20 November 2006. Mr Dundas was appointed to this Committee on 23 February 2007.
- (f) Member of the Corporate Responsibility and Community Committee. Mr Davies was appointed as Chairman, and Mr Sands was appointed as a member, of this Committee on 20 November 2006.
- (g) Mr Nargolwala formally elected to enhance his pension entitlement in the unapproved pension arrangements by sacrificing an element of his 2006 salary. An amount of \$446,491 was waived to provide additional pension benefit which is reflected in the table on page 69. Mr DeNoma receives a cash allowance of \$223,610 (2005: \$213,023) in lieu of his participation in any pension plan and this is reflected in the table above.
- (h) Further details on the fees for non-executive directors are shown on page 66. Sir CK Chow is also Chairman of Standard Chartered Bank (Hong Kong) Limited. He received an all-inclusive fee for his Hong Kong and Standard Chartered PLC Board duties of HK\$2,000,000.
- (i) Member of the Audit and Risk Committee.
- (j) Member of the Board Remuneration Committee. Miss Gooding was appointed to this Committee on 23 February 2007.
- (k) Mr Markham was appointed Senior Independent Director on 1 January 2007.
- (l) Lord Turner was appointed a member of both the Audit and Risk Committee and the Board Remuneration Committee with effect from 1 August 2006, the date of his appointment as a non-executive director.
- (m) Mr Norton retired from the Board on 31 December 2006. He was the Senior Independent Director, a member of the Board Nomination Committee and Board Remuneration Committee until this date and Chairman of the Board Remuneration Committee until 4 May 2006. Mr Norton stepped down from the Audit and Risk Committee with effect from 1 August 2006.
- (n) Mr Ho stepped down from the Board Remuneration Committee on 4 May 2006, the day he retired from the Board of Directors.

Audited Information continued
Notes continued

- (o) As set out on page 66, Mr Sanderson stepped down from the Board of Directors on 19 November 2006. He was, until this time, a member of the Board Nomination Committee and the Corporate Responsibility and Community Committee. The former Chairman's compensation was delivered part in cash and part in shares. In addition to his base salary of \$682,575 (£375,000), he received an award of shares equal in value. The number of shares delivered was fixed, based on the share price at the end of 2004. The total face value of these shares at transfer dates in 2006 was \$995,495 (£540,120).
- (p) Relevant exchange rates are shown on page 67.
- (q) Compensation to past director: As reported in the 2005 report and accounts, Mr C A Keljik retired from the Board on 5 May 2005. However, he continued to be an employee of the Bank until 31 January 2006. His base salary and other contractual benefits continued to be paid until 31 January 2006 in line with his service agreement. In January 2006, he received a month's salary and car allowance totalling \$65,737 (£35,667).

Retirement Benefits of Group Chairman and Executive Directors

	Accrued pension \$000 ^(c)			Transfer value of accrued pension \$000 ^{(d)(e)}			Increase in accrued pension (net of inflation and waiver) during 2006 \$000 ^(g)		
	At 1 January 2006	Increase during the year	At 31 December 2006	At 1 January 2006	Increase during the year net of waiver	At 31 December 2006	2006 waiver \$000 ^(f)	Annual pension	Transfer value
Directors									
E M Davies ^(b)	245	79	363	5,474	244	6,732	213	57	1,099
P A Sands	89	39	144	2,436	35	2,814	–	35	796
R H Meddings	125	44	189	2,576	306	3,437	143	31	657
K S Nargolwala	118	88	227	2,695	32	4,829	1,010	32	679

Notes

- (a) The ages of the executive directors are shown on page 51.
- (b) With effect from 1 January 2007, Mr Davies will no longer accrue pensionable service.
- (c) Mr DeNoma only receives a cash supplement and does not participate, like the other executive directors, in the defined benefit plans set out above. His cash supplement amounts are shown in the directors' remuneration table on page 68.
- (d) The accrued pension amounts include benefits arising from transfer payments received in respect of service with previous employers.
- (e) The transfer values in respect of benefits under the unapproved unfunded retirement benefits scheme have been calculated using the Group's pension accounting methodology and assumptions.
- (f) Executive directors are given the opportunity to waive a proportion of any potential bonus and/or salary to enhance their unfunded unapproved retirement benefits. The amounts waived in respect of 2006 are shown in the table.
- (g) The increase in the accrued pension (net of inflation and bonus waiver) during the year is the difference between the accrued pension at the end of 2005 increased by an allowance for inflation of 3.9 per cent (2005: 2.4 per cent) and the accrued pension at the end of 2006 excluding any bonus waiver in 2006.
- (h) In addition to the amounts identified in the table above the Group paid \$308,662 (2005: \$307,573) in retirement benefits to former directors and their dependants. All of these benefits first became payable before 31 March 1997.
- (i) The amounts included in the table above as at 1 January and 31 December 2006 are calculated using the exchange rates at the end of 2005 (£1: \$1.7176) and 2006 (£1: \$1.9579) respectively. The other entries are calculated using the exchange rates shown on page 67.

Directors' Remuneration Report continued

Audited Information continued Directors' Interests in Ordinary Shares

Directors	At 1 January 2006*	Personal interests	Family interests	At 31 December 2006**
	Total interests			Total interests
E M Davies	160,893	200,419	–	200,419
P A Sands	46,602	30,641	–	30,641
Sir CK Chow	15,664	15,664	–	15,664
M B DeNoma	110,548	159,715	–	159,715
J F T Dundas	2,100	2,100	–	2,100
V F Gooding	2,049	2,049	–	2,049
R H P Markham	2,302	2,364	–	2,364
R Markland	2,083	2,139	–	2,139
R H Meddings	77,389	111,291	–	111,291
K S Nargolwala	172,281	147,340	–	147,340
P D Skinner	3,124	3,206	–	3,206
O H J Stocken	10,000	10,000	–	10,000
Lord Turner	2,000	2,016	–	2,016
Ho KwonPing	2,450	2,450	–	2,450
H E Norton	7,500	7,500	–	7,500
B K Sanderson	189,669	217,116	16,159	233,275

* or at date of appointment to the Board, if later.

** or date of retirement/resignation from the Board, if earlier.

Notes

- The beneficial interests of directors and their families in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares.
- No director had an interest in the Company's preference shares or loan stock, nor the shares or loan stocks of any subsidiary or associated undertaking of the Group.
- No director had any corporate interests in the Company's ordinary shares.
- As the Chairman and each executive director is within the class of beneficiary of the Group's two employee benefit trusts, they are deemed, for the purposes of the Companies Act 1985, to have an interest in the shares held in the trusts. The respective holdings of the trusts are set out in note 40 to the accounts.

2004 Deferred Bonus Plan

Directors	Shares held in trust at 1 January 2006	Shares awarded during the period ^(a)	Shares awarded in respect of notional dividend ^(b)	Shares vested during the period ^(a)	Shares held in trust at 31 December 2006
E M Davies	51,602	34,884	466	52,068	34,884
P A Sands	30,961	22,893	280	31,241	22,893
M B DeNoma	24,941	17,442	225	25,166	17,442
R H Meddings	24,081	16,897	217	24,298	16,897
K S Nargolwala	24,941	17,442	225	25,166	17,442
B K Sanderson	26,062	–	235	26,297	–

Notes

- Market value on date of awards/vesting (6 March 2006) was 1512 pence.
- Under the 2004 Deferred Bonus Plan, shares are conditionally awarded instead of all or part of the director's annual cash bonus. The shares are held in an employee benefit trust and automatically vest one year after the date of acquisition. No exercise is necessary. A notional dividend accrues on the shares held in the trust. The dividend is delivered in the form of shares and is released on vesting.

Subsequent pages contain information on share options and share awards.

Audited Information continued
Long Term Incentives – Share Options

Director	Scheme	At 1 January 2006	Granted	Exercised	Lapsed	At 31 December 2006*	Weighted average exercise price (pence)	Period of exercise
E M Davies	2000 ESOS	877,853	–	–	–	877,853	831.57	2007-2015
	Sharesave	2,957	–	–	–	2,957	559.50	2007-2008
	1994 ESOS	132,848	–	60,483 ^(b)	–	72,365	866.03	2006-2009
P A Sands	2000 ESOS	598,417	–	–	–	598,417	835.54	2006-2015
	Sharesave	2,957	–	–	–	2,957	559.50	2007-2008
M B DeNoma	2000 ESOS	369,754	–	220,130 ^(b)	–	149,624	950.71	2007-2015
R H Meddings	2000 ESOS	241,642	–	101,375 ^(b)	–	140,267	954.43	2007-2015
	Sharesave	1,439	878 ^(c)	1,439 ^(d)	–	878	1064.00	2009-2010
K S Nargolwala	2000 ESOS	644,928	–	495,304 ^(e)	–	149,624	950.71	2007-2015
	1994 ESOS	99,063	–	99,063 ^(e)	–	–	–	–
B K Sanderson	2000 ESOS	191,488	–	–	–	191,488	822.50	2007-2015
	Sharesave	2,472	–	–	–	2,472	641.00	2008-2009

* or date of resignation from Board if earlier.

Director	Type of Scheme*	Options where market price greater than exercise price			Options where market price lower than exercise price		
		At December 2006	Weighted exercise price (pence)	Expiry date	At December 2006	Weighted exercise price (pence)	Expiry date
E M Davies	Executive Schemes	950,218	834.20	2007-2015	–	–	–
	Sharesave Scheme	2,957	559.50	2008	–	–	–
P A Sands	Executive Schemes	598,417	835.54	2012-2015	–	–	–
	Sharesave Scheme	2,957	559.50	2008	–	–	–
M B DeNoma	Executive Schemes	149,624	950.71	2014-2015	–	–	–
R H Meddings	Executive Schemes	140,267	954.43	2014-2015	–	–	–
	Sharesave Scheme	878	1064.00	2010	–	–	–
K S Nargolwala	Executive Schemes	149,624	950.71	2014-2015	–	–	–
B K Sanderson	Executive Schemes	191,488	822.50	2013-2015	–	–	–
	Sharesave Scheme	2,472	641.00	2009	–	–	–

* 'Executive Schemes' includes the 1994 Executive Share Option Scheme and the 2000 ESOS.

Notes

- (a) Details of performance conditions are described on pages 64 and 65.
- (b) Market value on date of exercise (6 March 2006) was 1512 pence.
- (c) Market value on date of grant (8 September 2006) was 1327 pence.
- (d) Market value on date of exercise (8 December 2006) was 1497 pence.
- (e) Market value on date of exercise (7 April 2006) was 1497 pence.

Directors' Remuneration Report continued

Audited Information continued Long Term Incentives – Shares

Director	Scheme	Grant date	As at 1 January 2006	Granted	Exercised	Lapsed	As at 31 December 2006*	Period of exercise
E M Davies	PSP	6 March 2002	83,010	–	76,784 ^(d)	6,226	–	–
	PSP	5 March 2003	86,893	–	86,893 ^(d)	–	–	–
	PSP	4 March 2004	69,481	–	–	–	69,481	2007-2014 ^(g)
	PSP	9 June 2004	70,575	–	–	–	70,575	2007-2014 ^(g)
	PSP	9 March 2005	154,479	–	–	–	154,479	2008-2015
	PSP	14 March 2006	–	111,498 ^(b)	–	–	111,498	2009-2016
	PSP	11 May 2006	–	82,191 ^(c)	–	–	82,191	2009-2016
P A Sands	RSS	20 May 2002	52,216	–	–	–	52,216	2007-2009 ^(f)
	PSP	5 March 2003	65,170	–	65,170 ^(d)	–	–	–
	PSP	4 March 2004	48,102	–	–	–	48,102	2007-2014 ^(g)
	PSP	9 June 2004	36,644	–	–	–	36,644	2007-2014 ^(g)
	PSP	9 March 2005	97,837	–	–	–	97,837	2008-2015
	PSP	14 March 2006	–	73,170 ^(b)	–	–	73,170	2009-2016
	PSP	11 May 2006	–	35,958 ^(c)	–	–	35,958	2009-2016
M B DeNoma	PSP	5 March 2003	55,032	–	55,032 ^(d)	–	–	–
	PSP	4 March 2004	42,757	–	–	–	42,757	2007-2014 ^(g)
	PSP	9 June 2004	21,715	–	–	–	21,715	2007-2014 ^(g)
	PSP	9 March 2005	74,794	–	–	–	74,794	2008-2015
	PSP	14 March 2006	–	59,930 ^(b)	–	–	59,930	2009-2016
	PSP	11 May 2006	–	22,089 ^(c)	–	–	22,089	2009-2016
R H Meddings	PSP	5 March 2003	38,015	–	38,015 ^(d)	–	–	–
	PSP	4 March 2004	37,413	–	–	–	37,413	2007-2014 ^(g)
	PSP	9 June 2004	9,500	–	–	–	9,500	2007-2014 ^(g)
	PSP	9 March 2005	74,794	–	–	–	74,794	2008-2015
	PSP	14 March 2006	–	59,930 ^(b)	–	–	59,930	2009-2016
	PSP	11 May 2006	–	22,089 ^(c)	–	–	22,089	2009-2016
K S Nargolwala	PSP	5 March 2003	55,032	–	–	–	55,032	2007-2013 ^(f)
	PSP	4 March 2004	42,757	–	–	–	42,757	2007-2014 ^(g)
	PSP	9 June 2004	21,715	–	–	–	21,715	2007-2014 ^(g)
	PSP	9 March 2005	74,794	–	–	–	74,794	2008-2015
	PSP	14 March 2006	–	59,930 ^(b)	–	–	59,930	2009-2016
	PSP	11 May 2006	–	29,452 ^(c)	–	–	29,452	2009-2016
B K Sanderson	RSS	13 May 2003	20,202	–	–	–	20,202	2006-2010 ^(f)
	PSP	4 March 2004	32,068	–	–	–	32,068	2007-2014 ^(g)
	PSP	9 March 2005	57,672	–	–	–	57,672	2008-2015

* or date of resignation from Board if earlier.

Notes:

- Details of performance conditions are described on pages 63 and 64.
- Market value on date of award (14 March 2006) was 1450 pence.
- Market value on date of award (11 May 2006) was 1460 pence.
- Market value on date of exercise (6 March 2006) was 1512 pence.
- Market value of awards in previous years: 20 May 2002 – 861.8 pence; 5 March 2003 – 690.5 pence; 13 May 2003 – 742.5 pence; 4 March 2004 – 935.5 pence; 9 June 2004 – 921 pence; 9 March 2005 – 971 pence.
- The performance and service conditions attached to these awards have already been met and the awards are exercisable accordingly.
- The performance conditions attached to these awards have been met and the awards will be exercisable after meeting the service conditions on 4 March 2007 or 9 June 2007.

Remuneration of Five Highest Paid Individuals

In addition to its responsibilities for the remuneration of executive directors, the Committee ensures that the remuneration policy of the Group is consistently applied for other senior executives. Specifically, the Committee approves any significant remuneration packages for newly appointed senior executives.

As a result of the Company's listing on The Stock Exchange of Hong Kong Limited, it is necessary to disclose certain information

relating to the five highest paid employees in the Group. Set out below are details for five individuals (one of whom is not an executive director) whose emoluments (excluding bonuses or commissions linked to profits generated by the individual or collectively with others engaged in similar activities) were the highest in the year ending 31 December 2006:

Components of remuneration	\$000
Basic salaries, allowances and benefits in kind	5,661
Pension contributions	2,908
Bonuses paid or receivable	11,870
Payments made on appointment	–
Compensation for loss of office	
– contractual	–
– other	–
Total	20,439
Total (HK\$000)	158,776

The emoluments were in the following bands:

HK\$ (approx. \$ equivalent)	Number of employees
HK\$22,500,001 – HK\$23,000,000 (\$2,896,387 – \$2,960,751)	1
HK\$23,000,001 – HK\$23,500,000 (\$2,960,751 – \$3,025,115)	1
HK\$28,000,001 – HK\$28,500,000 (\$3,604,392 – \$3,668,756)	1
HK\$39,000,001 – HK\$39,500,000 (\$5,020,404 – \$5,084,768)	1
HK\$45,500,001 – HK\$46,000,000 (\$5,857,137 – \$5,921,501)	1

By order of the Board

C Burns

Group Company Secretary
27 February 2007

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Company financial statements on the same basis.

The Group and Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and Company and the performance of the Group for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Standard Chartered PLC

We have audited the Group (Standard Chartered PLC and its subsidiaries) and Company (Standard Chartered PLC) financial statements (together referred to as the "financial statements") for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 74.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of Directors includes information presented in the Chairman's statement, the Group Chief Executive's Review and the Financial and Business Reviews that are cross referenced from the Report of the Directors. In addition we report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
27 February 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006			2005		
		Excluding acquisitions \$million	Acquisitions \$million	Total \$million	Excluding acquisitions \$million	Acquisitions \$million	Total \$million
Interest income	3	12,810	177	12,987	6,938	1,812	8,750
Interest expense	4	(7,576)	(83)	(7,659)	(3,384)	(1,031)	(4,415)
Net interest income		5,234	94	5,328	3,554	781	4,335
Fees and commission income		2,232	43	2,275	1,724	116	1,840
Fees and commission expense		(392)	(2)	(394)	(258)	(87)	(345)
Net trading income	5	914	6	920	746	23	769
Other operating income	6	485	6	491	236	26	262
		3,239	53	3,292	2,448	78	2,526
Operating income		8,473	147	8,620	6,002	859	6,861
Staff costs	7	(2,873)	(40)	(2,913)	(1,834)	(311)	(2,145)
Premises costs	7	(439)	(5)	(444)	(321)	(42)	(363)
General administrative expenses	7	(1,144)	(27)	(1,171)	(861)	(159)	(1,020)
Depreciation and amortisation	8	(249)	(19)	(268)	(216)	(67)	(283)
Operating expenses		(4,705)	(91)	(4,796)	(3,232)	(579)	(3,811)
Operating profit before impairment losses and taxation		3,768	56	3,824	2,770	280	3,050
Impairment losses on loans and advances and other credit risk provisions	19	(611)	(18)	(629)	(266)	(53)	(319)
Other impairment	9	(15)	–	(15)	(50)	–	(50)
Loss from associates	22	(2)	–	(2)	–	–	–
Profit before taxation		3,140	38	3,178	2,454	227	2,681
Taxation	10	(812)	(12)	(824)	(657)	(53)	(710)
Profit for the year		2,328	26	2,354	1,797	174	1,971
Profit attributable to:							
Minority interests	39	75	1	76	25	–	25
Parent company's shareholders		2,253	25	2,278	1,772	174	1,946
Profit for the year		2,328	26	2,354	1,797	174	1,971
Basic earnings per ordinary share	12			169.0c			148.5c
Diluted earnings per ordinary share	12			167.0c			146.9c

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 \$million	2005 \$million
Assets			
Cash and balances at central banks	41	7,698	8,012
Financial assets held at fair value through profit or loss	14	15,715	10,333
Derivative financial instruments	15	13,154	9,370
Loans and advances to banks	16,19	19,724	21,701
Loans and advances to customers	17,19	139,330	111,791
Investment securities	21	49,487	37,863
Interests in associates	22	218	128
Goodwill and intangible assets	24	6,146	4,321
Property, plant and equipment	25	2,168	1,644
Deferred tax assets	26	538	498
Other assets	27	8,601	7,163
Prepayments and accrued income		3,268	2,272
Total assets		266,047	215,096
Liabilities			
Deposits by banks	28	26,233	18,834
Customer accounts	29	147,382	119,931
Financial liabilities held at fair value through profit or loss	30	9,969	6,293
Derivative financial instruments	15	13,703	9,864
Debt securities in issue	31	23,514	25,913
Current tax liabilities		68	283
Other liabilities	33	11,355	8,446
Accruals and deferred income		3,210	2,319
Provisions for liabilities and charges	34	45	55
Retirement benefit obligations	35	472	476
Subordinated liabilities and other borrowed funds	36	12,699	10,349
Total liabilities		248,650	202,763
Equity			
Share capital	37	692	660
Reserves	38	16,161	11,222
Total parent company shareholders' equity		16,853	11,882
Minority interests	39	544	451
Total equity		17,397	12,333
Total equity and liabilities		266,047	215,096

These accounts were approved by the Board of Directors on 27 February 2007 and signed on its behalf by:

E M Davies
Chairman

P A Sands
Group Chief Executive

R H Meddings
Group Finance Director

Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Notes	Group		Company	
		2006 \$million	2005 \$million	2006 \$million	2005 \$million
Exchange differences on translation of foreign operations		670	(90)	–	–
Actuarial gains/(losses) on retirement benefits	35	104	(150)	–	–
Available for sale investments:					
Valuation gains taken to equity		682	7	–	–
Transferred to income on disposal/redemption		(190)	(107)	–	–
Cash flow hedges:					
Gains/(losses) taken to equity		79	(65)	–	–
Losses/(gains) transferred to income for the year		20	(20)	–	–
Taxation on items recognised directly in equity		(131)	141	–	–
Other		7	1	(3)	2
Net income/(expense) recognised in equity		1,241	(283)	(3)	2
Profit for the year		2,354	1,971	686	796
Total recognised income and expenses for the year		3,595	1,688	683	798
Attributable to:					
Parent company's shareholders	38	3,484	1,663	683	798
Minority interests	39	111	25	–	–
		3,595	1,688	683	798

Cash Flow Statement

For the year ended 31 December 2006

	Group		Company	
	2006 \$million	2005 \$million	2006 \$million	2005 \$million
Cash flow from operating activities				
Profit before taxation	3,178	2,681	713	785
Adjustment for items not involving cash flow or shown separately:				
Depreciation and amortisation	268	283	–	–
(Gain)/Loss on disposal of property, plant and equipment	(16)	1	–	–
Gain on disposal of investment securities	(190)	(107)	–	–
Amortisation of investments	(257)	17	–	–
Impairment losses	629	319	–	–
Other impairment	15	50	–	–
Assets written off, net of recoveries	(940)	(718)	–	–
Decrease/(increase) in accruals and deferred income	786	952	(101)	1,453
Increase in prepayments and accrued income	(901)	(1,248)	–	–
Net increase in mark-to-market adjustment	45	939	–	–
Interest accrued on subordinated loan capital	643	388	115	79
UK and overseas taxes paid	(903)	(611)	–	–
Net increase in treasury bills and other eligible bills	(644)	(686)	–	–
Net increase in loans and advances to banks and customers	(11,664)	(5,730)	–	–
Net increase in deposits from banks, customer accounts and debt securities in issue	16,914	18,996	–	–
Net increase in trading securities	(3,615)	(1,494)	–	–
Net increase/(decrease) in other accounts	5,074	(3,982)	43	144
Net cash from operating activities	8,422	10,050	770	2,461
Net cash flows from investing activities				
Purchase of property plant and equipment	(245)	(135)	–	–
Acquisition of investment in subsidiaries, net of cash acquired	(937)	(1,093)	(2,683)	(3,681)
Acquisition of treasury bills and other eligible bills	(23,376)	(13,443)	–	–
Acquisition of debt securities	(47,411)	(33,655)	–	–
Acquisition of equity shares	(328)	(658)	–	–
Redemption of capital in subsidiary	–	–	1,000	–
Disposal of property, plant and equipment	40	8	–	–
Disposal and maturity of treasury bills	22,650	12,599	–	–
Disposal and maturity of debt securities	40,909	35,748	–	–
Disposal of equity shares	337	351	–	–
Net cash used in investing activities	(8,361)	(278)	(1,683)	(3,681)
Net cash flows from financing activities				
Issue of ordinary share capital	1,996	2,000	1,996	2,000
Purchase of own shares, net of exercise, for share option awards	149	(73)	–	–
Interest paid on subordinated loan capital	(562)	(297)	(124)	(79)
Gross proceeds from issue of subordinated loan capital	1,591	3,874	–	–
Repayment of subordinated liabilities	(390)	(1,026)	–	–
Dividends and payments to minority interests and preference shareholders	(80)	(173)	(25)	(29)
Dividends paid to ordinary shareholders	(496)	(685)	(496)	(685)
Net cash from financing activities	2,208	3,620	1,351	1,207
Net increase in cash and cash equivalents	2,269	13,392	438	(13)
Cash and cash equivalents at beginning of year	35,226	22,112	1,590	1,603
Effect of exchange rate change on cash and cash equivalents	666	(278)	–	–
Cash and cash equivalents at end of year (note 41)	38,161	35,226	2,028	1,590

Company Balance Sheet

As at 31 December 2006

	Notes	2006 \$million	2005 \$million
Non-current assets			
Investments in subsidiary undertakings	22	9,656	7,973
Current assets			
Amounts owed by subsidiary undertakings		3,181	1,839
Taxation		158	204
Other		103	24
		3,442	2,067
Current liabilities			
Amounts owed to subsidiary undertakings		1,153	249
Other creditors, including taxation		71	32
Deferred income		154	53
		1,378	334
Net current assets		2,064	1,733
Total assets less current liabilities		11,720	9,706
Non-current liabilities			
Subordinated liabilities and other borrowed funds	36	1,977	1,893
Deferred income		1,208	1,400
		8,535	6,413
Equity			
Share capital	37	692	660
Reserves	38	7,843	5,753
Total equity		8,535	6,413

These accounts were approved by the Board of Directors on 27 February 2007 and signed on its behalf by:

E M Davies
Chairman

P A Sands
Group Chief Executive

R H Meddings
Group Finance Director

Notes to the Accounts

1. Accounting Policies

Statement of compliance

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") Interpretations as adopted by the EU (together "adopted IFRS"). In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Group has retrospectively adopted Amendment to IAS 21 – Net Investment in a Foreign Operation, Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts, Amendment to IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions and IFRIC Interpretation 4, 'Determining whether an arrangement contains a lease'. None of these had an impact on the Group's consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with costs directly attributable to the acquisition. Identifiable net assets and contingent liabilities acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary

acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in the Group accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Associates

Associates are all entities over which the Group has the ability to significantly influence the financial and operating policies and procedures, but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint Ventures

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements.

Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received, if any.

Foreign currency translation

Both the parent company financial statements and the Group financial statements are presented in US dollars, which is the presentation currency of the Group and the functional and presentation currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity.

Notes to the Accounts continued

1. Accounting Policies continued

Group companies

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the presentation currency are accounted for as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (four to sixteen years).

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it

is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	3 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are included in the income statement.

Leases

Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' with a corresponding liability to the lessor recognised in 'Other liabilities'. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax and cash flows.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances at central banks (unless restricted), treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Employee benefits

Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

1. Accounting Policies continued

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of recognised income and expense in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets, are charged to operating expenses.

Share-based compensation

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

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 targets). 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 Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. For forfeitures prior to vesting attributable to factors other than failure to satisfy market-based performance conditions, the cumulative charge incurred is credited to the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date with any changes in fair value charged or credited to staff costs in the income statement.

Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted

as at the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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 recognised in the income statement together with the current or deferred gain or loss.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares which carry a mandatory coupon, or which are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in other income.

Share capital

Incremental costs directly attributable to the issue of new shares or options, or to the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

Financial assets and liabilities (excluding derivatives)

The Group classifies its financial assets in the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition.

Notes to the Accounts continued

1. Accounting Policies continued

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

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as trading unless they are designated as hedges.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or
- the assets or liabilities include embedded derivatives and such derivatives are not recognised separately.

(b) Loans and receivables

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

(c) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(d) Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

Subsequent measurement

Available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted financial assets or financial liabilities in active markets are based on current prices. If the market for a financial asset or financial liability is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

Income recognition

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the income statement using the effective interest method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, is included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

1. Accounting Policies continued

Impairment of financial assets continued

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Available-for-sale assets

A significant or prolonged decline in the fair value of a security below its cost is considered in determining whether an asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Derivative financial instruments and hedge accounting

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, 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 recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

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. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Notes to the Accounts continued

1. Accounting Policies continued

Offsetting financial instruments

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain on the balance sheet; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Interest income and expense

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

Hyperinflation

Where the Group has operations in countries that experience hyperinflation, the financial statements are restated for changes in general purchasing power of the local currency.

2. Segmental Information

The Group is organised on a worldwide basis into two main business segments: Wholesale Banking and Consumer Banking. The types of products and services within these segments are set out in the Financial Review. The Group's secondary reporting format comprises geographical segments.

By Class of Business

	2006				2005			
	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Internal income**	(75)	75	–	–	(34)	34	–	–
Net interest income	3,545	1,783	–	5,328	2,916	1,419	–	4,335
Other income	1,214	2,065	13	3,292	920	1,606	–	2,526
Operating income	4,684	3,923	13	8,620	3,802	3,059	–	6,861
Operating expenses	(2,641)	(2,151)	(4)	(4,796)	(2,101)	(1,710)	–	(3,811)
Operating profit before impairment losses and taxation	2,043	1,772	9	3,824	1,701	1,349	–	3,050
Impairment (losses)/releases on loans and advances and other credit risk provisions	(721)	92	–	(629)	(425)	106	–	(319)
Other impairment	–	(15)	–	(15)	(3)	(11)	(36)	(50)
Loss from associates	–	–	(2)	(2)	–	–	–	–
Profit before taxation	1,322	1,849	7	3,178	1,273	1,444	(36)	2,681
Total assets employed	88,538	176,971	*538	266,047	74,134	140,464	*498	215,096
Total liabilities employed	107,141	141,441	*68	248,650	79,008	123,472	*283	202,763
Total risk weighted assets and contingents	60,380	93,063	–	153,443	52,054	73,870	–	125,924
Other segment items:								
Capital expenditure	209	150	–	359	114	109	–	223
Depreciation	100	35	–	135	87	39	–	126
Amortisation of intangible assets	52	81	–	133	74	83	–	157

* As required by IAS 14, tax balances are not allocated.

** Internal income for 2005 has been restated as the Group refined its method for charging and allocating expense for capital in 2006. The restatement had no effect on total income. See note 52.

Notes to the Accounts continued

2. Segmental Information continued

By Geographic Segment

The Group manages its business segments on a global basis. The operations are based in nine main geographical areas. The UK is the home country of the parent.

	2006									
	Asia Pacific								Americas UK & Group Head Office	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	\$million	\$million
Internal income	(14)	3	(2)	50	17	(17)	(7)	(10)	(20)	–
Net interest income	1,115	345	242	1,097	788	445	660	396	240	5,328
Fees and commissions income, net	406	159	50	152	302	204	296	160	152	1,881
Net trading income	74	56	60	64	166	101	115	91	193	920
Other operating income	34	59	21	159	111	84	6	3	14	491
Operating income	1,615	622	371	1,522	1,384	817	1,070	640	579	8,620
Operating expenses	(720)	(294)	(164)	(972)	(785)	(375)	(514)	(413)	(559)	(4,796)
Operating profit before impairment losses and taxation	895	328	207	550	599	442	556	227	20	3,824
Impairment (losses)/releases on loans and advances and other credit risk provisions	(7)	(39)	(29)	(96)	(384)	(39)	(53)	(26)	44	(629)
Other impairment	–	–	–	–	(3)	–	–	(9)	(3)	(15)
Loss from associates	–	–	–	–	(4)	–	–	–	2	(2)
Profit before taxation	888	289	178	454	208	403	503	192	63	3,178
Loans and advances to customers – average	22,859	12,976	8,671	38,986	12,261	5,876	9,531	2,397	10,415	123,972
Net interest margins (%)	2.3	1.3	2.1	1.9	3.0	3.4	3.8	5.7	0.3	2.5
Loans and advances to customers – period end	22,037	14,626	9,199	40,029	22,872	6,242	10,525	2,536	12,458	140,524
Loans and advances to banks – period end	6,474	939	161	1,753	4,462	477	1,058	387	5,353	21,064
Total assets employed*	49,831	25,393	11,846	64,159	46,874	14,382	18,112	7,792	65,904	304,293
Total risk weighted assets and contingents	23,784	13,681	5,315	35,330	24,876	8,450	13,572	3,287	28,282	156,577
Capital expenditure	78	65	3	35	49	22	37	13	57	359

* Total assets employed includes intra-group items of \$38,784 million and excludes deferred tax assets of \$538 million.

2. Segmental Information continued

	2005									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Internal income*	21	7	6	(1)	13	(7)	5	(14)	(30)	–
Net interest income	935	270	214	826	626	337	478	380	269	4,335
Fees and commissions Income, net	352	139	60	45	225	151	234	151	138	1,495
Net trading income	101	84	44	63	165	72	89	31	120	769
Other operating income	75	14	11	24	28	40	6	5	59	262
Operating income	1,484	514	335	957	1,057	593	812	553	556	6,861
Operating expenses	(649)	(246)	(150)	(632)	(610)	(306)	(339)	(399)	(480)	(3,811)
Operating profit before impairment losses and taxation	835	268	185	325	447	287	473	154	76	3,050
Impairment (losses)/releases on loans and advances and other credit risk provisions	(117)	(43)	(30)	(61)	(49)	(50)	9	(43)	65	(319)
Other impairment	(1)	–	–	–	–	1	–	(47)	(3)	(50)
Profit before taxation	717	225	155	264	398	238	482	64	138	2,681
Loans and advances to customers – average	22,148	11,966	6,521	23,315	9,971	5,107	7,917	2,088	9,819	98,852
Net interest margin (%)	2.2	1.1	2.2	2.0	3.0	3.3	3.2	7.3	0.5	2.5
Loans and advances to customers – period end	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Loans and advances to banks – period end	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959
Total assets employed**	49,943	23,602	10,409	59,929	24,141	10,943	12,902	5,606	37,083	234,558
Total risk weighted assets and contingents	21,281	11,770	5,224	31,850	15,140	6,369	9,304	2,732	24,256	127,926
Capital expenditure	36	43	6	42	34	18	11	13	20	223

* Internal income by geographies has been restated as the Group has refined its methodology for charging and allocating expense for capital in 2006. The restatement has no effect on total income. See note 52.

** Total assets employed includes intra-group items of \$19,960 million and excludes deferred tax assets of \$498 million.

Notes to the Accounts continued

2. Segmental Information continued

Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. In the year in which an acquisition is made the Group does not charge or allocate the benefit of the Group's capital and the distribution of central expenses is phased in over two years, based on an estimate of central management costs associated with the acquisition.

In 2006, corporate items not allocated to businesses relate to costs associated with the buyback of subordinated debt in Korea, pre-incorporation costs in China and with the gain realised on the effective part disposal of the Standard Chartered Bank branches in Pakistan as set out in note 23. Other impairment includes

provisions made in respect of exposures in Zimbabwe. This was included in the geographic segmental information, but in 2005 was not fully allocated to businesses in the business segmental information.

Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Total risk weighted assets and contingents include \$3,134 million (2005: \$2,002 million) of balances which are netted in calculating capital ratios.

Capital expenditure comprises additions to property and equipment (note 25) and intangibles (note 24) including additions resulting from acquisitions.

3. Interest Income

	2006 \$million	2005 \$million
Balances at central banks	29	8
Treasury bills	746	469
Loans and advances to banks	1,177	851
Loans and advances to customers	8,997	6,104
Listed debt securities	855	525
Unlisted debt securities	1,131	745
Accrued on impaired assets (discount unwind)	52	48
	12,987	8,750

Total interest income from financial instruments held at amortised cost in 2006 is \$8,738 million (2005: \$6,313 million) and from financial instruments held as available-for-sale is \$3,534 million (2005: \$1,925 million).

4. Interest Expense

	2006 \$million	2005 \$million
Deposits by banks	1,122	643
Customer accounts:		
Current and demand accounts	1,403	597
Savings deposits	164	97
Time deposits	3,141	1,852
Debt securities in issue	1,186	703
Subordinated loan capital and other borrowed funds:		
Wholly repayable within five years	227	158
Other	416	365
	7,659	4,415

Total interest expense on financial instruments held at amortised cost in 2006 is \$6,948 million (2005: \$4,262 million).

5. Net Trading Income

	2006 \$million	2005 \$million
Gains less losses on foreign currency	645	613
Gains less losses on trading securities	109	(19)
Other trading profits	166	175
	920	769

6. Other Operating Income

	2006 \$million	2005 \$million
Other operating income includes:		
Gains less losses on disposal of available-for-sale financial assets	190	107
Dividend income	77	62
Gains arising on assets fair valued at acquisition	106	–
Gain on effective part disposal of Pakistan branches	17	–

7. Operating Expenses

	2006 \$million	2005 \$million
Staff costs:		
Wages and salaries	2,278	1,653
Social security costs	74	48
Other pension costs (note 35)	166	131
Other staff costs	395	313
	2,913	2,145
Premises and equipment expenses:		
Rental of premises	215	183
Other premises and equipment costs	208	167
Rental of computers and equipment	21	13
	444	363
General administrative expenses	1,171	1,020

Wages and salaries include share based payments – see note 40.

The Group employed 59,205 staff at 31 December 2006 (2005: 43,899).

The Company employed nil staff at 31 December 2006 (2005: nil). It incurred costs of \$2 million (2005: \$3 million).

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 61 to 73.

Transactions with directors, officers and other related parties are disclosed in the related parties note 53 on page 140.

Notes to the Accounts continued

7. Operating Expenses continued

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to \$3.3 million (2005: \$3.1 million). The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together "KPMG"):

	2006 \$million	2005 \$million
Audit fees for the Group statutory audit:		
Fees relating to the current year	3.3	3.1
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation	7.6	7.7
Other services pursuant to legislation	1.6	3.1
Tax services	1.0	0.8
Services relating to information technology	0.1	0.1
Services relating to corporate finance transactions	1.4	0.4
All other services	0.2	0.3
Total fees payable	15.2	15.5

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. It excludes amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services relating to information technology include advice on IT security and business continuity, and performing agreed upon IT testing procedures.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice and review of financial models.
- Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees of \$0.2 million (2005: \$0.2 million) by parties other than the Group but where the Group are connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered PLC are not disclosed because such fees are disclosed on a consolidated basis for the Group.

8. Depreciation and Amortisation

	2006 \$million	2005 \$million
Premises	57	53
Equipment	78	73
Intangibles:		
Software	81	125
Acquired on business combinations	52	32
	268	283

9. Other Impairment

	2006 \$million	2005 \$million
Goodwill	—	2
Other	15	48
	15	50

Other impairment mainly comprises provision for exposures in Zimbabwe.

10. Taxation

Analysis of taxation charge in the year:

	2006 \$million	2005 \$million
The charge for taxation based upon the profits for the year comprises:		
United Kingdom corporation tax at 30% (2005: 30%):		
Current tax on income for the year	229	326
Adjustments in respect of prior periods (including double taxation relief)	(244)	4
Double taxation relief	(208)	(308)
Foreign tax:		
Current tax on income for the year	868	671
Adjustments in respect of prior periods	33	(18)
Total current tax	678	675
Deferred tax:		
Origination/reversal of temporary differences	146	35
Tax on profits on ordinary activities	824	710
Effective tax rate	25.9%	26.5%

Overseas taxation includes taxation on Hong Kong profits of \$166 million (2005: \$131 million) provided at a rate of 17.5 per cent (2005: 17.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 30 per cent.

The differences are explained below:

	2006 \$million	2005 \$million
Profit on ordinary activities before taxation	3,178	2,681
Tax at 30% (2005: 30%)	953	804
Effects of:		
Tax free income	(52)	(16)
Effect of lower tax rates on overseas earnings	(191)	(111)
One-off adjustments on Korea branch transfer	–	(12)
Effect of higher tax rates on overseas earnings	133	–
Adjustments to tax charge in respect of previous periods	(75)	(16)
Other items	56	61
Tax on profits on ordinary activities	824	710

Tax recognised directly in equity:

	2006 \$million	2005 \$million
Current tax credit on share based payments	18	–
Current tax credit/(charge) on available-for-sale assets	5	–
Current tax credit/(charge) on instruments reclassified from debt to equity	–	20
Total current tax recognised in equity	23	20
Deferred tax credit/(charge) on available-for-sale assets	(70)	49
Deferred tax credit/(charge) on pensions	(38)	51
Deferred tax credit/(charge) on share based payments	29	86
Deferred tax credit/(charge) on cash flow hedges	(25)	–
Deferred tax on other items	8	29
Total deferred tax recognised in equity	(96)	215
Total tax recognised in equity	(73)	235

Notes to the Accounts continued

11. Dividends

Ordinary Equity Shares	2006		2005	
	Cents per share	\$million	Cents per share	\$million
Final dividend declared and paid during the period	45.06	595	40.44	524
Interim dividends declared and paid during the period	20.83	277	18.94	248
	65.89	872	59.38	772

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior years. The 2006 final dividend of 50.21 cents per share (\$695 million) will be paid in either sterling, Hong Kong dollars or US dollars on 11 May 2007 to shareholders on the UK register of members at the close of business in the UK on 9 March 2007, and to shareholders on the Hong Kong branch

register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 9 March 2007. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend will be sent to shareholders on or around 26 March 2007.

Preference Shares		2006 \$million	2005 \$million
Non-cumulative irredeemable preference shares:	7 ³ / ₈ per cent preference shares of £1 each*	14	14
	8 ¹ / ₄ per cent preference shares of £1 each*	15	15
Non-cumulative redeemable preference shares:	8.9 per cent preference shares of \$5 each	22	29
	6.409 per cent preference shares of \$5 each	3	–

* Dividends on these preference shares are treated as interest expense.

12. Earnings Per Ordinary Share

	2006			2005		
	Profit* \$million	Weighted average number of shares (‘000)	Per share amount cents	Profit* \$million	Weighted average number of shares (‘000)	Per share amount cents
Basic earnings per ordinary share	2,253	1,332,985	169.0	1,917	1,290,916	148.5
Effect of dilutive potential ordinary shares:						
Convertible bonds	–	–		7	10,346	
Options	–	16,050		–	8,678	
Diluted earnings per share	2,253	1,349,035	167.0	1,924	1,309,940	146.9

Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33, Earnings per share. The table below provides a reconciliation.

	2006 \$million	2005 \$million
Profit attributable to ordinary shareholders*	2,253	1,917
Premium and costs paid on repurchase of subordinated debt	4	–
Amortisation of intangible assets arising on business combinations	52	32
Profit on sale of property, plant and equipment	(16)	–
Gain on transfer of branches	(17)	–
Pre-incorporation costs in China	4	–
Other impairment	–	42
Tax on normalised items	(5)	(7)
Normalised earnings	2,275	1,984
Normalised earnings per ordinary share	170.7c	153.7c

* The profit amounts represent the profit attributable to ordinary shareholders i.e. after the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 11).

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculations had they been issued prior to the end of the balance sheet period.

13. Financial Instruments Classification Summary

Financial instruments are classified between four recognition principles: held at fair value through profit or loss (comprising trading and designated), available-for-sale, held-to-maturity and loans and receivables. The face of the balance sheet combines financial instruments that are held at their fair value and

subdivided between those assets and liabilities held for trading purposes and those that the Group has elected to hold at fair value.

The Group's classification of its principal financial assets and liabilities (excluding derivatives) is summarised below:

	Trading \$million	Designated at fair value through profit or loss \$million	Available- for-sale \$million	Loans and receivables \$million	Held to- maturity \$million	Total \$million
Loans and advances to banks	1,340	–	–	19,724	–	21,064
Loans and advances to customers	1,000	194	–	139,330	–	140,524
Treasury bills and other eligible bills	2,722	696	12,522	–	–	15,940
Debt securities	8,906	695	32,701	2,649	137	45,088
Equity shares	162	–	1,478	–	–	1,640
Total assets at 31 December 2006	14,130	1,585	46,701	161,703	137	224,256

Loans and advances to banks	1,258	–	30	21,671	–	22,959
Loans and advances to customers	230	156	105	111,686	–	112,177
Treasury bills and other eligible bills	2,223	492	10,199	–	–	12,914
Debt securities	5,612	244	25,231	1,264	215	32,566
Equity shares	118	–	954	–	–	1,072
Total assets at 31 December 2005	9,441	892	36,519	134,621	215	181,688

	Trading \$million	Designated at fair value through profit or loss \$million	Amortised cost \$million	Total \$million
Deposits by banks	1,286	603	26,233	28,122
Customer accounts	485	1,421	147,382	149,288
Debt securities in issue	1,514	1,771	23,514	26,799
Short positions	2,889	–	–	2,889
Total liabilities at 31 December 2006	6,174	3,795	197,129	207,098

Deposits by banks	1,102	337	18,834	20,273
Customer accounts	394	614	119,931	120,939
Debt securities in issue	1,068	433	25,913	27,414
Short positions	2,345	–	–	2,345
Total liabilities at 31 December 2005	4,909	1,384	164,678	170,971

Notes to the Accounts continued

14. Financial Assets Held at Fair Value through Profit or Loss

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. Derivatives are recorded at fair value whereas loans and advances are usually recorded at amortised cost. To significantly reduce the accounting mismatch between fair value and amortised cost, these loans and advances and debt securities have been designated at fair value through profit or loss. The Group ensures the criteria under IFRS are met by matching the principal terms of interest rate swaps to the corresponding loan and debt security.

The changes in fair value of both the underlying loans and advances and debt securities and interest rate swaps are monitored in a similar manner to trading book portfolios.

The fair value loss on assets designated at fair value through profit or loss was \$4.7 million (2005: \$8 million). Of this, \$0.4 million (2005: \$nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$0.4 million (2005: \$nil million).

	2006			2005		
	Trading \$million	Designated at fair value through profit or loss \$million	Total \$million	Trading \$million	Designated at fair value through profit or loss \$million	Total \$million
Loans and advances to banks	1,340	–	1,340	1,258	–	1,258
Loans and advances to customers	1,000	194	1,194	230	156	386
Treasury bills and other eligible bills	2,722	696	3,418	2,223	492	2,715
Debt securities	8,906	695	9,601	5,612	244	5,856
Equity shares	162	–	162	118	–	118
	14,130	1,585	15,715	9,441	892	10,333

Debt securities

	2006 \$million	2005 \$million
Issued by public bodies:		
Government securities	2,321	1,632
Other public sector securities	45	–
	2,366	1,632
Issued by banks:		
Certificates of deposit	405	811
Other debt securities	2,082	1,028
	2,487	1,839
Issued by corporate entities and other issuers:		
Other debt securities	4,748	2,385
Total debt securities	9,601	5,856
Of which:		
Listed on a recognised UK exchange	418	537
Listed elsewhere	2,819	1,526
Unlisted	6,364	3,793
	9,601	5,856

Equity shares

Listed elsewhere	36	–
Unlisted	126	118
Total equity shares	162	118

15. Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow hedging has been achieved, in which case changes in fair value go through reserves).

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

In respect of credit risk arising from the use of derivatives, the Group sets limits on net open positions. The amount of credit risk is the current positive fair value (asset) of the underlying contract. The credit risk is managed as part of the overall lending limits to banks and customers, together with potential exposures from market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as transactions are not usually settled on a net basis.

The Derivatives and Hedging section of the Risk Review on page 47 explains the Group's risk management of derivative contracts.

	2006			2005		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Total derivatives						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	434,569	3,805	4,165	326,053	5,392	5,884
Currency swaps and options	295,845	4,698	4,793	175,121	351	487
	730,414	8,503	8,958	501,174	5,743	6,371
Interest rate derivative contracts:						
Swaps	653,283	4,353	4,348	471,652	3,452	3,239
Forward rate agreements and options	94,244	138	195	68,015	72	160
Exchange traded futures and options	260,182	42	47	117,026	43	27
	1,007,709	4,533	4,590	656,693	3,567	3,426
Credit derivative contracts	22,195	49	70	9,374	45	52
Equity and stock index options	699	18	44	379	3	3
Commodity derivative contracts	2,469	51	41	4,642	12	12
Total derivatives	1,763,486	13,154	13,703	1,172,262	9,370	9,864
Effect of netting		(6,425)			(4,859)*	
Net credit risk on derivatives		6,729			4,511	

* Restated to present on a consistent basis.

Notes to the Accounts continued

15. Derivative Financial Instruments continued

The Group uses derivatives primarily to mitigate interest rate and foreign exchange risk. Hedge accounting is applied to derivatives and hedged items when the criteria under IFRS have been met. The table below lists the types of derivatives that have achieved hedge accounting with the following two categories:

Fair value hedges

The Group uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rates on funding to match floating rates received on assets, or exchanges fixed rates on assets to match the floating rates paid on funding. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss.

Cash flow hedges

The Group uses swaps to manage the variability in future interest cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies. Gains and losses arising on the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss. These cash flows are expected to occur over the next three years.

	2006			2005		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Swaps	10,570	589	464	6,123	368	143
	10,570	589	464	6,123	368	143
Derivatives designated as cash flow hedges						
Swaps	5,596	17	21	3,581	–	24
Forward foreign exchange contracts	921	61	2	802	4	23
	6,517	78	23	4,383	4	47
Total derivatives held for hedging	17,087	667	487	10,506	372	190

16. Loans and Advances to Banks

	2006 \$million	2005 \$million
Loans and advances to banks	21,074	22,982
Individual impairment provision (note 19)	(9)	(22)
Portfolio impairment provision (note 19)	(1)	(1)
	21,064	22,959
Of which: loans and advances held at fair value through profit or loss (note 14)	(1,340)	(1,258)
	19,724	21,701

17. Loans and Advances to Customers

	2006 \$million	2005 \$million
Loans and advances to customers	142,702	113,908
Individual impairment provision (note 19)	(1,569)	(1,364)
Portfolio impairment provision (note 19)	(609)	(367)
	140,524	112,177
Of which: loans and advances held at fair value through profit or loss (note 14)	(1,194)	(386)
	139,330	111,791

The Group has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of \$3,935 million (2005: \$65 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of \$3,519 million (2005: \$65 million) arising from the securitisations.

During 2006 the Group has entered into collateralised loan obligations over \$5.6 billion of loans and advances to customers (2005: \$2 billion). The assets remain on the Group's balance

sheet and the Group continues to be exposed to the related risks on these assets. The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore and the Other Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Korea residents of \$24.0 billion (2005: \$22.5 billion) and Hong Kong residents of approximately \$11.2 billion (2005: \$12.1 billion).

The following tables show loans and advances to customers by each principal category of borrower's business or industry:

	2006			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages	4,817	10,376	34,559	49,752
Other	8,787	6,506	2,114	17,407
Small and medium enterprises	6,592	3,242	2,483	12,317
Consumer Banking	20,196	20,124	39,156	79,476
Agriculture, forestry and fishing	637	63	93	793
Construction	943	115	14	1,072
Commerce	8,972	549	46	9,567
Electricity, gas and water	760	331	610	1,701
Financing, insurance and business services	9,255	2,063	669	11,987
Governments	6,759	117	121	6,997
Mining and quarrying	1,836	231	428	2,495
Manufacturing	13,844	2,337	1,807	17,988
Commercial real estate	1,974	1,308	14	3,296
Transport, storage and communication	2,016	1,259	850	4,125
Other	1,069	274	293	1,636
Wholesale Banking	48,065	8,647	4,945	61,657
Portfolio impairment provision				(609)
				140,524

Notes to the Accounts continued

17. Loans and Advances to Customers continued

	2005			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages	4,756	9,598	29,717	44,071
Other	8,352	4,666	1,572	14,590
Small and medium enterprises	5,883	1,687	1,921	9,491
Consumer Banking	18,991	15,951	33,210	68,152
Agriculture, forestry and fishing	546	81	19	646
Construction	602	99	12	713
Commerce	6,518	481	78	7,077
Electricity, gas and water	684	198	680	1,562
Financing, insurance and business services	6,552	1,706	628	8,886
Governments	4,507	197	170	4,874
Mining and quarrying	699	216	213	1,128
Manufacturing	8,477	2,068	798	11,343
Commercial real estate	2,433	974	73	3,480
Transport, storage and communication	1,544	872	974	3,390
Other	888	354	51	1,293
Wholesale Banking	33,450	7,246	3,696	44,392
Portfolio impairment provision				(367)
				112,177

18. Asset Leased to Customers

	2006 \$million	2005 \$million
Finance leases	639	298
Instalment credit agreements	1,019	851
	1,658	1,149

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$720 million (2005: \$201 million).

	2006 \$million	2005 \$million
Minimum lease receivables under finance leases falling due:		
Within one year	88	73
Later than one year and less than five years	496	266
After five years	157	23
	741	362
Interest income relating to future periods	(102)	(64)
Present value of finance lease receivables	639	298

19. Impairment Provisions on Loans and Advances

	2006 Total \$million	2005 Total \$million
At 1 January	1,754	1,782
Exchange translation differences	74	(25)
Acquisitions	706	407
Amounts written off/recoveries on acquisition fair values	(1,068)	(871)
Recoveries of amounts previously written off	128	153
Discount unwind	(52)	(48)
Other	12	24
New provisions	1,131	915
Recoveries/provisions no longer required	(497)	(583)
Net charge against profit*	634	332
Provisions held at 31 December**	2,188	1,754

* The net charge of \$634 million (2005: \$332 million) comprises \$604 million (2005: \$255 million) individual impairment charge and \$30 million (2005: \$77 million) portfolio impairment charge. It excludes provision releases of \$11 million (2005: \$13 million) for credit commitments and other provisions (note 34) and impairment charges of \$6 million (2005: \$nil million) relating to debt securities designated as loans and receivables (note 21).

** The provision of \$2,188 million held at 31 December 2006 (2005: \$1,754 million) comprises \$1,578 million (2005: \$1,386 million) individual impairment provision and \$610 million (2005: \$368 million) portfolio impairment provision.

The following table shows specific provisions by each principal category of borrowers' business or industry:

	2006 \$million	2005 \$million
Loans to individuals		
Mortgages	132	107
Other	226	70
Small and medium enterprises	486	351
Consumer Banking	844	528
Agriculture, forestry and fishing	23	32
Construction	4	24
Commerce	169	129
Electricity, gas and water	6	16
Financing, insurance and business services	20	105
Mining and quarrying	36	26
Manufacturing	411	355
Commercial real estate	12	16
Transport, storage and communication	31	53
Other	13	80
Wholesale Banking	725	836
Individual impairment provision against loans and advances to customers (note 17)	1,569	1,364
Individual impairment provision against loans and advances to banks (note 16)	9	22
Portfolio impairment provision (note 16, 17)	610	368
Total impairment provisions on loans and advances	2,188	1,754

Notes to the Accounts continued

20. Non-Performing Loans and Advances

	2006 \$million	2005 \$million
Non-performing loans and advances	2,779	2,694
Impairment provisions	(2,188)	(1,754)
	591	940

Net non-performing loans and advances comprises loans and advances to banks \$9 million (2005: \$24 million) and loans and advances to customers \$582 million (2005: \$916 million).

Impairment provisions cover 79 per cent of non-performing lending to customers (2005: 65 per cent).

Impairment provisions for 2006 include \$610 million (2005: \$368 million) of portfolio impairment provision.

21. Investment Securities

	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	Total \$million
Treasury and other eligible bills	–	12,522	–	12,522
Debt securities	137	32,701	2,649	35,487
Equity shares	–	1,478	–	1,478
At 31 December 2006	137	46,701	2,649	49,487
Treasury and other eligible bills	–	10,199	–	10,199
Debt securities	215	25,231	1,264	26,710
Equity shares	–	954	–	954
At 31 December 2005	215	36,384	1,264	37,863

	2006			Equity shares \$million	Treasury bills \$million	Total \$million
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million			
Issued by public bodies:						
Government securities	137	10,379	–			
Other public sector securities	–	1,403	–			
	137	11,782	–			
Issued by banks:						
Certificates of deposit	–	8,433	2,280			
Other debt securities	–	9,505	178			
	–	17,938	2,458			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,981	191			
Total debt securities	137	32,701	2,649			
Listed on a recognised UK exchange	–	6,679	–	38	–	6,717
Listed elsewhere	113	10,183	132	795	7,027	18,250
Unlisted	24	15,839	2,517	645	5,495	24,520
	137	32,701	2,649	1,478	12,522	49,487
Market value of listed securities	109	16,862	130	833	7,027	24,961

Equity shares largely comprises investments in corporates.

21. Investment Securities continued

	2005					
	Debt Securities			Equity shares	Treasury bills	Total
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	\$million	\$million	\$million
Issued by public bodies:						
Government securities	215	8,618	–			
Other public sector securities	–	1,418	–			
	215	10,036	–			
Issued by banks:						
Certificates of deposit	–	6,330	–			
Other debt securities	–	5,973	–			
	–	12,303	–			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,892	1,264			
	–	2,892	1,264			
Total debt securities	215	25,231	1,264			
Listed on a recognised UK exchange	–	5,944	–	23	–	5,967
Listed elsewhere	3	6,776	–	235	7,005	14,019
Unlisted	212	12,511	1,264	696	3,194	17,877
	215	25,231	1,264	954	10,199	37,863
Market value of listed securities	3	12,720	–	258	7,005	19,986

The change in the carrying book amount of investment securities comprised:

	2006				2005			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
At 1 January	26,710	954	10,199	37,863	27,598	292	3,938	31,828
Exchange translation differences	949	9	528	1,486	(1,026)	1	(154)	(1,179)
Acquisitions	1,145	21	842	2,008	2,327	289	5,622	8,238
Additions	47,411	328	23,376	71,115	33,655	658	13,443	47,756
Transfers	–	–	–	–	35	(35)	–	–
Maturities and disposals	(40,909)	(337)	(22,650)	(63,896)	(35,748)	(351)	(12,599)	(48,698)
Provisions	(6)	(4)	(16)	(26)	1	(1)	(33)	(33)
Changes in fair value	142	510	28	680	(107)	104	(29)	(32)
Amortisation of discounts and premiums	45	(3)	215	257	(25)	(3)	11	(17)
At 31 December	35,487	1,478	12,522	49,487	26,710	954	10,199	37,863

Treasury bills and other eligible bills include \$393 million (2005: \$2,347 million) of bills sold subject to sale and repurchase transactions.

Debt securities include \$896 million (2005: \$811 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2006, unamortised premiums on debt securities held for investment purposes amounted to \$39 million (2005:

\$59 million) and unamortised discounts amounted to \$112 million (2005: \$41 million).

Income from listed equity shares amounted to \$4 million (2005: \$32 million) and income from unlisted equity shares amounted to \$73 million (2005: \$30 million).

Notes to the Accounts continued

22. Investments in Subsidiary Undertakings, Joint Ventures and Associates

	2006 \$million	2005 \$million
At 1 January 2006	7,973	4,292
Additions	2,683	3,681
Redemption of capital	(1,000)	–
At 31 December 2006	9,656	7,973

At 31 December 2006, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100%
Standard Chartered First Bank Korea Limited, Korea	Korea	100%
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100%
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	99.0%
Hsinchu International Bank, Taiwan	Taiwan	96.2%
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100%
Standard Chartered Bank (Thai) Public Company Limited, Thailand*	Thailand	99.97%
Standard Chartered Capital Management (Jersey) LLC, United States	United States	100%
Standard Chartered Receivables (UK) Limited, England and Wales	United Kingdom	100%
Standard Chartered Financial Investments Limited, England and Wales	United Kingdom	100%
Standard Chartered Debt Trading Limited, England and Wales	Hong Kong	100%

* Formerly Standard Chartered Nakornthon Bank Public Company Limited.

Details of all Group companies will be filed with the next annual return of the Company.

Joint venture

The Group has an interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk ("Permata"), in Indonesia. The Group proportionately consolidates its share of the assets, liabilities, income and expense of Permata line by line. On 5 September 2006, the Group acquired an additional 12.96 per cent for a consideration of \$98 million, increasing its share to 44.51 per cent (2005: 31.55 per cent) and generating goodwill of \$57 million. Contingent liabilities set out in note 44, include \$24 million (2005: \$11 million) relating to this joint venture

arrangement. These mainly comprise banking guarantees and irrevocable letters of credit.

There are no capital commitments related to the Group's investment in Permata.

Related party transactions are disclosed in note 53.

The following amounts have been included in the consolidated accounts of the Group:

	2006 \$million	2005 \$million
Total assets	2,021	1,231
Total liabilities	(1,661)	(1,032)
	360	199
Income	100	69
Expenses	(73)	(62)
Impairment	(17)	2
Operating profit	10	9
Tax	(2)	(2)
Share of post tax result from joint venture	8	7

22. Investments in Subsidiary Undertakings, Joint Ventures and Associates continued

Interests in associates

	2006 \$million	2005 \$million
At 1 January	128	–
Additions	90	128
At 31 December	218	128
Loss for the year	2	–
Total assets	355	128
Total liabilities	216	–
	139	128

On 15 August 2005, the Group contributed \$128 million to the establishment of China Bohai Bank. The Group's investment is less than 20 per cent but is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating policies. Bohai commenced operation in 2006 and as such there was no share of income and expenses for 2005.

In January 2006, the Group issued 3,401,290 ordinary shares to acquire 20 per cent of Fleming Family & Partners Limited for \$82 million.

In October 2006 the Group acquired 25 per cent of First Africa Holdings Limited at a cost of \$5.4 million.

The reporting dates of these associates are within three months of the Group's reporting date.

23. Business Combinations

2006 acquisitions

On 5 September 2006, the Group acquired 95.4 per cent of the share capital of Union Bank Limited ("Union"), a large banking group in Pakistan. The acquired business contributed operating

income of \$51 million and profit before tax of \$7 million to the Group for the period from 6 September 2006 to 30 December 2006.

\$million

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

– cash paid	487
– direct costs relating to the acquisition	2
Total purchase consideration	489
Fair value of net assets acquired	83
Goodwill	406

On 30 December 2006, the business and assets of the Standard Chartered Bank branches in Pakistan were transferred into a new entity, Standard Chartered (Pakistan) Limited, the acquiring entity of Union. A share swap was effected for the minority shareholders of Union to swap their Union holdings into those of Standard Chartered (Pakistan) Limited, following which the Group's

shareholding increased to 99.0 per cent. Additional goodwill of \$17 million was generated as a result of this share swap.

The goodwill is attributable to the significant synergies expected to arise from the development of Union within the Standard Chartered Group and to those intangibles, such as the branch network, which are not recognised separately.

Notes to the Accounts continued

23. Business Combinations continued

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$million	Acquiree's carrying amount \$million
Cash and balances at central banks*	148	148
Loans and advances to banks	104	104
Loans and advances to customers	1,128	1,206
Investment securities	404	411
Intangibles other than goodwill	55	3
Property, plant and equipment	45	28
Deferred tax assets	40	1
Other assets	48	61
Total assets	1,972	1,962
Deposits by banks	425	425
Customer accounts	1,320	1,309
Other liabilities	97	96
Subordinated liabilities and other borrowed funds	40	41
Total liabilities	1,882	1,871
Minority interest	7	7
Net assets acquired	83	84
Purchase consideration settled in cash	489	
Cash and cash equivalents in subsidiary acquired	(164)	
Cash outflow on acquisition	325	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

The intangible assets acquired as part of the acquisition of Union can be analysed as follows:

	\$million
Brand names	6
Customer relationships	13
Core deposits	33
Capitalised software	3
Total	55

23. Business Combinations continued

On 29 September 2006, the Group launched a tender offer for Hsinchu International Bank ("Hsinchu") a banking group in Taiwan and through this acquired 95.4 per cent of the share capital. The effective date of the acquisition, being the date the Group acquired a controlling interest, was 19 October 2006. Subsequent to this, the Group acquired a further 0.8 per cent

through share purchase to take its overall share to 96.2 per cent at 31 December 2006. The acquired business contributed operating income of \$80 million and profit before tax of \$27 million to the Group for the period from 19 October 2006 to 31 December 2006.

\$million

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

– cash paid through tender	1,176
– cash paid for subsequent purchases	15
– direct costs relating to the acquisition	10
Total purchase consideration	1,201
Fair value of net assets acquired	253
Goodwill	948

The goodwill is attributable to the significant synergies expected to arise from the development of Hsinchu within the Standard Chartered Group and those intangibles such as its extensive branch network and the workforce in place, with Mandarin speaking capabilities, which are not recognised separately.

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$million	Acquiree's carrying amount \$million
Cash and balances at central banks*	481	481
Loans and advances to banks	440	440
Loans and advances to customers	9,245	9,352
Investment securities	1,604	1,609
Intangibles other than goodwill	122	–
Financial assets held at fair value through profit or loss	563	563
Property, plant and equipment	286	307
Deferred tax assets	144	140
Other assets	212	213
Total assets	13,097	13,105
Deposits by banks	988	988
Customer accounts	10,709	10,709
Debt securities in issue	532	532
Other liabilities	60	57
Subordinated liabilities and other borrowed funds	545	545
Total liabilities	12,834	12,831
Minority interest	10	10
Net assets acquired	253	264
Purchase consideration settled in cash	1,201	
Cash and cash equivalents in subsidiary acquired	(589)	
Cash outflow on acquisition	612	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

Due to the proximity of the acquisition to the year-end the fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

Notes to the Accounts continued

23. Business Combinations continued

The intangible assets acquired as part of the acquisition of Hsinchu can be analysed as follows:

	\$million
Brand names	24
Customer relationships	43
Core deposits	55
Total	122

If the acquisitions of Union and Hsinchu had occurred on 1 January 2006, the operating income of the Group (excluding the income relating to the incremental stake acquired in Permata) would have been approximately \$8,974 million, with contributions of \$141 million from Union Bank and \$360 million from Hsinchu,

and profit before taxation (excluding the profit relating to the incremental stake acquired in Permata) would have been approximately \$3,053 million, with Union contributing \$38 million and Hsinchu a loss of \$125 million.

2005 acquisitions

On 15 April 2005, the Group acquired 100 per cent of the share capital of Korea First Bank (now called SC First Bank), a major banking group in the Republic of Korea (South Korea). The acquired business contributed operating income of \$859 million and profit before tax of \$227 million to the Group for the period from 15 April 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, SCFB would have added approximately \$1,150 million to Group operating income and \$300 million to profit before tax for the period.

	\$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid	3,338
– direct costs relating to the acquisition	35
Total purchase consideration	3,373
Fair value of net assets acquired	1,635
Goodwill	1,738

The goodwill is attributable to the significant synergies expected to arise from the development of SCFB within the Standard Chartered Group and those intangibles, such as workforce in place, which are not recognised separately.

23. Business Combinations continued

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$million	Acquiree's carrying amount \$million
Cash and balances at central banks*	2,321	2,321
Derivative financial instruments	27	27
Loans and advances to banks	890	890
Loans and advances to customers	31,455	31,983
Investment securities	8,153	8,139
Intangibles other than goodwill	229	58
Property, plant and equipment	1,088	1,109
Deferred tax assets	97	15
Other assets	887	884
Total assets	45,147	45,426
Deposits by banks	2,782	2,782
Customer accounts	18,923	19,328
Financial liabilities held at fair value through profit or loss	121	–
Derivative financial instruments	240	240
Debt securities in issue	16,871	17,243
Other liabilities	2,962	2,239
Subordinated liabilities and other borrowed funds	1,280	1,514
Total liabilities	43,179	43,346
Minority interest	333	298
Net assets acquired	1,635	1,782
Purchase consideration settled in cash	3,373	
Cash and cash equivalents in subsidiary acquired	(2,378)	
Cash outflow on acquisition	995	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts have been finalised in the 2006 accounts.

The intangible assets acquired as part of the acquisition on SCFB can be analysed as follows:

	\$million
Brand names	86
Customer relationships	24
Core deposits	91
Capitalised software	28
Total	229

During 2005, the Group acquired a further 24.97 per cent of Standard Chartered Bank (Thai) Public Company Limited in Thailand for \$98 million giving rise to goodwill of \$64 million,

and other businesses giving rise to negative goodwill of \$6 million, which has been recognised through the Consolidated Income Statement.

Notes to the Accounts continued

24. Goodwill and Intangible Assets

	2006				2005			
	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million
Cost								
At 1 January	4,451	218	462	5,131	2,643	–	466	3,109
Exchange translation differences	212	18	19	249	8	2	(3)	7
Acquisitions	1,428	179	9	1,616	1,802	216	28	2,046
Additions	–	25	89	114	–	–	88	88
Disposals	–	–	(18)	(18)	–	–	(14)	(14)
Amounts written off	–	–	(99)	(99)	(2)	–	(103)	(105)
Other movements	–	(1)	(4)	(5)	–	–	–	–
At 31 December	6,091	439	458	6,988	4,451	218	462	5,131
Provision for amortisation								
At 1 January	514	32	264	810	514	–	242	756
Exchange translation differences	–	4	8	12	–	–	(2)	(2)
Amortisation for the period	–	52	81	133	–	32	125	157
Disposals	–	–	(17)	(17)	–	–	(4)	(4)
Amounts written off	–	–	(96)	(96)	–	–	(97)	(97)
At 31 December	514	88	240	842	514	32	264	810
Net book value	5,577	351	218	6,146	3,937	186	198	4,321

At 31 December 2006, accumulated goodwill impairment losses incurred from 1 January 2004 amounted to \$69 million (2005: \$69 million).

	\$million
Acquired intangibles comprises:	
Core deposits	148
Customer relationships	90
Brand names	109
Licences	4
	351

Acquired intangibles primarily comprise those recognised as part of the acquisitions of SCFB, PT Bank Permata Tbk, Union Bank and Hsinchu. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in SCFB.

24. Goodwill and intangible assets continued

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

Acquisition	Cash Generating Unit	Goodwill \$million
SCFB	Korean business	1,913
Union	Pakistan business	422
Hsinchu	Taiwan business	965
Manhattan Card Business	Credit card and personal loan – Asia, India & MESA	894
Grindlays (India)	India business	377
Grindlays (MESA)	MESA business	368
SC (Thai)	Thailand business	291
Permata	Group's share of Permata	171
Other		176
		5,577

All recoverable amounts were measured based on value in use. The key assumptions and approach to determining value in use calculations, as set out below, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year, except for Hsinchu (two years) and Permata (five years). These are then extrapolated for periods of up to a further 19 years using steady GDP growth rates. Where these rates are different from available market data on long-term rates, that fact is stated below. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

SCFB

SCFB was acquired in April 2005 with initial goodwill recognised of \$1,738 million. The business comprises Consumer and Wholesale Banking operations in Korea.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Korea. A discount rate of 13.1 per cent was used.

Union

Union was acquired in September 2006 with initial goodwill recognised of \$406 million. Additional goodwill of \$17 million arose as a result of a share swap. The business comprises Consumer and Wholesale Banking operations in Pakistan.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Pakistan. A pre-tax discount rate of 24.8 per cent was used.

Hsinchu

Hsinchu was acquired in October 2006 with initial goodwill recognised of \$948 million. The business comprises Consumer and Wholesale Banking operations in Taiwan.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Taiwan. A pre-tax discount rate of 15.2 per cent was used.

Manhattan Card Business

Manhattan Card Business was acquired in 2000 with initial goodwill recognised of \$1,061 million. This was amortised to \$892 million under UK GAAP until 31 December 2003. The business comprises a credit card business and a personal loans business across Asia, India and MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast global GDP growth. A discount rate of 13.6 per cent was used.

Grindlays (India)

Grindlays (India) was acquired in 2000 with initial goodwill recognised of \$446 million. This was amortised to \$366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in India.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of India. A discount rate of 25.8 per cent was used.

Grindlays (MESA)

Grindlays (MESA) was acquired in 2000 with initial goodwill recognised of \$446 million. This was amortised to \$366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long term forecast GDP growth of MESA. A discount rate of 18.5 per cent was used.

SC (Thai)

75 per cent of SC Thai (formerly SC Nakornthon) was acquired in 1999 with initial goodwill recognised of \$222 million. This was amortised to \$204 million under UK GAAP until 31 December 2003. In 2005 the Group acquired the remaining 25 per cent, increasing goodwill to \$272 million. The business comprises Consumer and Wholesale Banking operations in Thailand.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long term forecast GDP growth of Thailand. A discount rate of 18.7 per cent was used.

Permata

31.55 per cent of Permata was acquired in 2004 with initial goodwill recognised of \$115 million. A further 12.96 per cent was acquired in September 2006 with goodwill of \$57 million. This business comprises Consumer and Wholesale Banking operations in Indonesia.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Indonesia. A discount rate of 20.0 per cent was used.

Notes to the Accounts continued

25. Property, Plant and Equipment

	2006			2005		
	Premises \$million	Equipment \$million	Total \$million	Premises \$million	Equipment \$million	Total \$million
Cost or valuation						
At 1 January	1,694	414	2,108	653	337	990
Exchange translation differences	106	10	116	–	(6)	(6)
Additions	146	99	245	70	65	135
Acquisitions	288	47	335	1,052	36	1,088
Disposals and fully depreciated assets written off	(47)	(64)	(111)	(26)	(66)	(92)
Other	(3)	3	–	(55)	48	(7)
At 31 December	2,184	509	2,693	1,694	414	2,108
Depreciation						
Accumulated at 1 January	177	287	464	180	255	435
Exchange translation differences	6	7	13	(4)	(6)	(10)
Charge for the year	57	78	135	53	73	126
Attributable to assets sold or written off	(25)	(62)	(87)	(22)	(62)	(84)
Other	–	–	–	(30)	27	(3)
Accumulated at 31 December	215	310	525	177	287	464
Net book amount at 31 December	1,969	199	2,168	1,517	127	1,644

Assets held under finance leases have the following net book amount:

	2006		2005	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Cost	47	4	48	7
Aggregate depreciation	(4)	(2)	(3)	(5)
Net book amount	43	2	45	2

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

	2006 \$million	2005 \$million
Minimum lease payments under finance leases falling due:		
Within one year	1	1
Later than one year and less than five years	2	2
After five years	–	–
	3	3
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	3	3

26. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	At 1 January 2006 \$million	Exchange & other adjustments \$million	Acquisitions \$million	Charge to profit \$million	Charge to equity \$million	At 31 December 2006 \$million
Deferred taxation comprises:						
Accelerated tax depreciation	(34)	30	(10)	4	–	(10)
Impairment provisions on loans and advances	(185)	(27)	(111)	160	–	(163)
Tax losses carried forward	(7)	–	(37)	(24)	–	(68)
Available-for-sale assets	(32)	(2)	–	–	70	36
Premises revaluation	12	–	(4)	5	–	13
Cash flow hedges	(1)	–	–	–	25	24
Unrelieved foreign tax	–	–	–	(76)	–	(76)
Retirement benefit obligations	(160)	(12)	(9)	(8)	38	(151)
Share based payments	(101)	–	–	(1)	(29)	(131)
Other temporary differences	10	(40)	(60)	86	(8)	(12)
	(498)	(51)	(231)	146	96	(538)

	At 1 January 2005 \$million	Exchange translation differences \$million	Acquisitions \$million	Charge to profit \$million	Credit to equity \$million	At 31 December 2005 \$million
Deferred taxation comprises:						
Accelerated tax depreciation	(5)	–	(17)	(12)	–	(34)
Impairment provisions on loans and advances	(128)	(3)	(53)	(1)	–	(185)
Tax losses carried forward	(9)	–	–	2	–	(7)
Available-for-sale assets	9	–	8	–	(49)	(32)
Premises revaluation	12	–	–	–	–	12
Cash flow hedges	(1)	–	–	–	–	(1)
Unrelieved foreign tax	(21)	–	–	21	–	–
Retirement benefit obligations	(46)	(1)	(47)	(15)	(51)	(160)
Share based payments	(7)	–	–	(8)	(86)	(101)
Other temporary differences	(22)	1	12	48	(29)	10
	(218)	(3)	(97)	35	(215)	(498)

	2006 \$million	2005 \$million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Unrelieved foreign tax	222	239
Unremitted earnings from overseas subsidiaries	(282)	(144)
Foreign exchange movements on investments in branches	(41)	33
Other	34	35

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings or branches that are foreign operations at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future.

Notes to the Accounts continued

27. Other Assets

	2006 \$million	2005 \$million
Hong Kong SAR Government certificates of indebtedness (note 33)	2,605	2,492
Other	5,996	4,671
	8,601	7,163

The government of Hong Kong certificates of indebtedness are subordinated to the claims of other parties.

28. Deposits by Banks

	2006 \$million	2005 \$million
Deposits by banks	26,233	18,834
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 30)	1,889	1,439
	28,122	20,273

29. Customer Accounts

	2006 \$million	2005 \$million
Customer accounts	147,382	119,931
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 30)	1,906	1,008
	149,288	120,939

Included in customer accounts were deposits of \$1,724 million (2005: \$2,640 million) held as collateral for irrevocable commitments under import letters of credit.

30. Financial Liabilities Held at Fair Value through Profit or Loss

	2006		
	Trading \$million	Designated at fair value through profit or loss \$million	Total \$million
Deposits by banks	1,286	603	1,889
Customer accounts	485	1,421	1,906
Debt securities in issue	1,514	1,771	3,285
Short positions	2,889	–	2,889
	6,174	3,795	9,969

	2005		
	Trading \$million	Designated at fair value through profit or loss \$million	Total \$million
Deposits by banks	1,102	337	1,439
Customer accounts	394	614	1,008
Debt securities in issue	1,068	433	1,501
Short positions	2,345	–	2,345
	4,909	1,384	6,293

The Group designates certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk, or
- are exposed foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes, or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Derivatives are recorded at fair value whereas non-trading financial liabilities (unless designated at fair value) are recorded at amortised cost. Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting

mismatch between fair value and amortised cost expense recognition (a criterion of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of derivatives to the corresponding liabilities, either individually or on a portfolio basis.

The changes in fair value of both the underlying liabilities and derivatives are monitored in a similar manner to trading book portfolios.

The fair value loss on liabilities designated at fair value through profit or loss was \$31.2 million for the year (2005: \$12 million gain). Of this, \$3.7 million (2005: \$1.7 million gain) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$5.4 million (2005: \$1.9 million).

As at December 2006, the difference between the carrying amount at fair value and the amount the Group is contractually obliged to pay at maturity to the holders of the obligations was \$67.7 million (2005: \$34.1 million).

31. Debt Securities in Issue

	2006			2005		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	10,939	12,575	23,514	14,179	11,734	25,913
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 30)	1,154	2,131	3,285	201	1,300	1,501
	12,093	14,706	26,799	14,380	13,034	27,414

Notes to the Accounts continued

32. Structure of deposits

The following tables set out the structure of the Group's deposits by principal geographic region where it operates at 31 December 2006 and 31 December 2005.

2006										
	Asia Pacific							Americas UK & Group Head Office	Total	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million			
Non interest bearing current and demand accounts	3,320	1,722	1,435	163	2,123	2,082	3,654	1,649	894	17,042
Interest bearing current and demand accounts	16,894	2,964	261	15,263	5,456	5	1,300	1,136	5,529	48,808
Savings deposits	10	1,857	741	11	11,089	1,451	1,685	449	–	17,293
Time deposits	18,961	9,754	5,211	16,682	12,293	4,073	6,901	1,575	13,574	89,024
Other deposits	14	7	750	1,756	1,507	241	568	140	260	5,243
Total	39,199	16,304	8,398	33,875	32,468	7,852	14,108	4,949	20,257	177,410
Deposits by banks	734	1,276	597	9,297	5,869	871	1,968	323	7,187	28,122
Customer accounts	38,465	15,028	7,801	24,578	26,599	6,981	12,140	4,626	13,070	149,288
	39,199	16,304	8,398	33,875	32,468	7,852	14,108	4,949	20,257	177,410
Debt securities in issue	627	1,087	992	17,561	1,597	932	12	171	3,820	26,799
Total	39,826	17,391	9,390	51,436	34,065	8,784	14,120	5,120	24,077	204,209

2005										
	Asia Pacific							Americas UK & Group Head Office	Total	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million			
Non interest bearing current and demand accounts	2,998	2,001	1,120	216	1,343	1,928	2,855	1,359	473	14,293
Interest bearing current and demand accounts	12,753	2,063	148	13,554	3,612	3	1,110	1,264	4,534	39,041
Savings deposits	6	1,383	459	12	2,478	1,286	1,369	368	–	7,361
Time deposits	17,893	11,324	4,046	14,542	8,397	3,164	5,179	872	10,675	76,092
Other deposits	20	49	1,120	1,322	748	11	432	97	626	4,425
Total	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Deposits by banks	627	3,641	652	4,742	3,517	676	1,893	98	4,427	20,273
Customer accounts	33,043	13,179	6,241	24,904	13,061	5,716	9,052	3,862	11,881	120,939
	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Debt securities in issue	840	1,111	619	19,815	741	655	–	85	3,548	27,414
Total	34,510	17,931	7,512	49,461	17,319	7,047	10,945	4,045	19,856	168,626

33. Other Liabilities

	2006 \$million	2005 \$million
Notes in circulation	2,605	2,492
Cash-settled share based payments	50	26
Other liabilities	8,700	5,928
	11,355	8,446

Hong Kong currency notes in circulation of \$2,605 million (2005: \$2,492 million) are secured by the government of Hong Kong certificates of indebtedness of the same amount included in other assets (note 27).

34. Provisions for Liabilities and Charges

	Provision for credit commitments \$million	Other provisions \$million	Total \$million
At 1 January 2006	43	12	55
Exchange translation differences	2	–	2
Acquired	1	–	1
(Release)/charge against profit	(5)	16	11
Provisions utilised	(9)	(11)	(20)
Other	(5)	1	(4)
At 31 December 2006	27	18	45

Provision for credit commitments comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet its repayment obligations.

35. Retirement Benefit Obligations

Retirement benefit obligations comprise:

	2006 \$million	2005 \$million
Defined benefit schemes obligation	460	465
Defined contribution schemes obligation	12	11
Net book amount	472	476

	2006 \$million	2005 \$million
At 1 January	476	169
Exchange translation differences	48	(7)
Charge against profit (net of finance income)	166	126
Change in net liability	(218)	188
At 31 December	472	476

Retirement benefit charge comprises:

	2006* \$million	2005 \$million
Defined benefit schemes	96	71
Defined contribution schemes	70	60
Charge against profit (note 7)	166	131

* The 2006 charge is presented net of finance charge of \$6 million.

Notes to the Accounts continued

35. Retirement Benefit Obligations continued

UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the "Fund") (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2002 by T. Cunningham, Fellow of the

Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. A new valuation of the Fund is being carried out with an effective date of 31 December 2005. The results of the valuation were not available at the time of publication. The assumptions having the most significant effect on the outcome of this valuation were:

Return from investments held for pensioners	5.0 per cent per annum
Return from investments held for non-pensioners before retirement	6.4 per cent per annum
Return from investments held for non-pensioners after retirement	5.2 per cent per annum
General increase in salaries	4.8 per cent per annum
Increase in pensions:	
In deferment (where applicable)	2.3 per cent per annum
In payment* (pre April 1997 service)	2.3 per cent per annum
In payment (post April 1997 service)	2.3 per cent per annum

* Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund (\$1,197 million) was sufficient to cover 97 per cent of the benefits that had accrued to members (84 per cent including the allowance for discretionary benefit increases). The Group paid an additional contribution of \$114 million into the Fund on 30 December 2003 to improve the financial position of the Fund. No further additional contributions were paid during 2004 and none are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2006 totalled \$19 million (2005: \$11 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) employees and seconded staff, and 38.4 per cent of pensionable salary for international staff. With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, the current service cost will increase as a percentage of pensionable pay as the members approach retirement.

Pension costs for the purpose of these accounts were assessed using the projected unit method, and the assumptions set out below were based on market data at the date of calculation.

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Hong Kong, India, Jersey, Korea, Taiwan and the United States.

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2006. (The effective date of the full valuations ranges between 31 December 2004 and 31 December 2005.)

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2006 were:

	Funded Defined Benefit Schemes			
	UK Fund**		Overseas Scheme*	
	2006 %	2005 %	2006 %	2005 %
Price inflation	3.00	2.80	1.5-4.5	1.5-4.5
Salary increases	4.50	5.30	3.25-5.50	3.5-5.5
Pension increases	2.90	2.70	0.00-2.90	0.00-2.70
Discount rate	5.20	4.90	2.25-8.00	2.25-7.50
Post-retirement medical trend rate	N/A	N/A	N/A	N/A

Pension increases for the UK Fund range from 2.9 per cent to 3.0 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 3.0 per cent.

* The range of assumptions shown is for the main funded defined benefit overseas schemes in Hong Kong, India, Jersey, Korea, Taiwan and the United States. These comprise 92 per cent of the total liabilities of funded overseas schemes.

** The assumption for life expectancy for the UK fund assumes that a male member currently aged 60 will live for 26 years (2005: 26 years) and a female member 29 years (2005: 29 years) and a male member currently aged 40 will live for 27 years (2005: 29 years) and a female member 30 years (2005: 30 years) after their 60th birthday.

35. Retirement Benefit Obligations continued

	Unfunded Schemes			
	Post-retirement Medical*		Other	
	2006 %	2005 %	2006 %	2005 %
Price inflation	2.70	2.70	2.5-7.00	2.70-6.00
Salary increases	4.00	4.00	4.00-9.00	4.00-8.00
Pension increases	N/A	N/A	0.00-2.90	0.00-2.70
Discount rate	6.00	5.75	3.00-10.50	3.00-14.00
Post-retirement medical rate	9% in 2006 reducing by 1% per annum to 5% in 2010	10% in 2005 reducing by 1% per annum to 5% in 2010	N/A	N/A

* The Post-retirement Medical plan is in the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2006 were:

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2006								
Equities	7.50	570	8.00-14.00	210	N/A	N/A	N/A	N/A
Bonds	4.50	1,144	4.25-8.00	155	N/A	N/A	N/A	N/A
Property	N/A	–	7.00-12.00	3	N/A	N/A	N/A	N/A
Others	4.50	108	2.50-5.10	149	N/A	N/A	N/A	N/A
Total market value of assets		1,822		517		N/A		N/A
Present value of the schemes' liabilities		(1,982)		(542)		(9)		(266)
Net pension liability*		(160)		(25)		(9)		(266)

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2005								
Equities	7.75	619	7.75-12.00	162	N/A	N/A	N/A	N/A
Bonds	4.25	909	4.25-12.00	133	N/A	N/A	N/A	N/A
Property	N/A	–	7.00-12.00	2	N/A	N/A	N/A	N/A
Others	4.90	22	1.75-4.90	83	N/A	N/A	N/A	N/A
Total market value of assets		1,550		380		N/A		N/A
Present value of the schemes' liabilities		(1,785)		(403)		(11)		(196)
Net pension liability*		(235)		(23)		(11)		(196)

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Value \$million		Value \$million		Value \$million		Value \$million	
At 31 December 2004								
Total market value of assets	1,596		317		N/A		N/A	
Present value of the schemes' liabilities	(1,679)		(338)		(11)		(45)	
Net pension liability*	(83)		(21)		(11)		(45)	

The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Korea, Taiwan and the United States.

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

* No scheme contains a surplus that is non-recoverable.

Notes to the Accounts continued

35. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

Year ending 31 December 2006	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post-retirement Medical \$million	Other \$million	
Current service cost	21	42	–	17	80
Past service cost	9	1	–	(1)	9
Loss on settlements and curtailments	1	–	–	–	1
Expected return on pension scheme assets	(93)	(23)	–	–	(116)
Interest on pension scheme liabilities	92	19	1	10	122
Total charge to profit before deduction of tax	30	39	1	26	96
Gain on assets in excess of expected return*	(23)	(27)	–	–	(50)
Experience (gain)/loss on liabilities	(90)	20	(2)	18	(54)
Total (gain)/loss recognised in Statement of Recognised Income and Expenses before tax	(113)	(7)	(2)	18	(104)
Deferred taxation	34	3	–	1	38
Total (gain)/loss after tax	(79)	(4)	(2)	19	(66)

* The actual return on the UK fund assets was \$116 million and on overseas scheme assets was \$50 million.

The total cumulative amount recognised in the Statement of Recognised Income and Expenses before tax to date is \$51 million.

Year ending 31 December 2005	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post-retirement Medical \$million	Other \$million	
Current service cost	16	41	1	14	72
Past service cost	–	–	–	–	–
Gain on settlements and curtailments	(1)	–	–	–	(1)
Expected return on pension scheme assets	(93)	(28)	–	–	(121)
Interest on pension scheme liabilities	85	24	–	7	116
Total charge to profit before deduction of tax	7	37	1	21	66
Gain on assets in excess of expected return*	(91)	(20)	–	–	(111)
Experience loss on liabilities	256	5	–	–	261
Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax	165	(15)	–	–	150
Deferred taxation	(50)	5	–	–	(45)
Total loss/(gain) after tax	115	(10)	–	–	105

* The actual return on the UK fund assets was \$184 million and on overseas scheme assets was \$48 million.

Year ending 31 December 2004	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post-retirement Medical \$million	Other \$million	
Gain on assets in excess of expected return*	(20)	(2)	–	–	(22)
Experience gain on liabilities	–	(1)	(1)	–	(2)
Loss/(gain) on change of assumptions	23	7	–	(1)	29
Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax	3	4	(1)	(1)	5
Deferred taxation	(1)	–	–	–	(1)
Total loss/(gain) after tax	2	4	(1)	(1)	4

* The actual return on the UK fund assets was \$111 million and on overseas scheme assets was \$31 million.

35. Retirement Benefit Obligations continued

Movement in the pension schemes and post-retirement medical deficit during the year comprise:

Year ending 31 December 2006	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post- retirement Medical \$million	Other \$million	
Deficit at 1 January 2006	(235)	(23)	(11)	(196)	(465)
Contributions	19	51	1	11	82
Current service cost	(21)	(42)	–	(17)	(80)
Past service cost	(9)	(1)	–	1	(9)
Settlement/curtailment costs	(1)	–	–	–	(1)
Other finance income/(charge)	1	4	(1)	(10)	(6)
Actuarial (loss)/gain	113	7	2	(18)	104
Acquisitions	–	(25)	–	(12)	(37)
Exchange rate adjustment	(27)	(3)	–	(18)	(48)
Reclassifications	–	7	–	(7)	–
Deficit at 31 December 2006	(160)	(25)	(9)	(266)	(460)

Year ending 31 December 2005	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post- retirement Medical \$million	Other \$million	
Deficit at 1 January 2005	(83)	(21)	(11)	(45)	(160)
Contributions	11	49	1	11	72
Current service cost	(16)	(41)	(1)	(14)	(72)
Past service cost	–	–	–	–	–
Settlement/curtailment costs	1	–	–	–	1
Other finance income/(charge)	8	4	–	(7)	5
Actuarial (loss)/gain	(165)	15	–	–	(150)
Acquisitions	–	(28)	–	(141)	(169)
Exchange rate adjustment	9	(1)	–	–	8
Deficit at 31 December 2005	(235)	(23)	(11)	(196)	(465)

Movement in the pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ending 31 December 2006	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January 2006	1,930	(2,395)	(465)
Contributions	82	–	82
Current service cost	–	(80)	(80)
Past service cost	–	(9)	(9)
Settlement/curtailment costs	–	(1)	(1)
Interest cost	–	(122)	(122)
Expected return on scheme assets	116	–	116
Benefits paid out	(119)	119	–
Actuarial gain	50	54	104
Acquisitions	48	(85)	(37)
Exchange rate adjustment	232	(280)	(48)
Deficit at 31 December 2006	2,339	(2,799)	(460)

Notes to the Accounts continued

35. Retirement Benefit Obligations continued

Year ending 31 December 2005	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January 2005	1,913	(2,073)	(160)
Contributions	72	–	72
Current service cost	–	(72)	(72)
Settlement/curtailment costs	–	1	1
Interest cost	–	(116)	(116)
Expected return on scheme assets	121	–	121
Benefits paid out	(98)	98	–
Actuarial (loss)/gain	111	(261)	(150)
Acquisitions	2	(171)	(169)
Exchange rate adjustment	(191)	199	8
Deficit at 31 December 2005	1,930	(2,395)	(465)

36. Subordinated Liabilities and Other Borrowed Funds

	2006 \$million	2005 \$million
Subordinated loan capital – issued by subsidiary undertakings		
£30 million Floating Rate Notes 2009	58	51
£300 million 6.75 per cent Notes 2009	526	476
€600 million 5.375 per cent Notes 2009	710	655
BWP 75 million Floating Rate Notes 2012	13	14
\$700 million 8.0 per cent subordinated Notes 2031	724	753
€500 million 8.16 per cent non-cumulative Trust Preferred Securities (callable 2010)	674	630
£600 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities (callable 2016)	1,342	628
£200 million 7.75 per cent Step-Up Notes (callable 2022)	454	426
\$350 million 4.375 per cent Notes 2014 (Floating rate from 2009)	340	340
HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)	63	62
HKD 670 million Floating Rate Notes 2014	80	85
€750 million 3.625 per cent (Floating rate from 2012) Subordinated Notes 2017	946	880
\$500 million Floating Rate Notes 2015	499	498
\$500 million Floating Rate Notes 2016	498	498
\$154 million Subordinated debt 2013	148	383
\$92 million Subordinated debt 2013	92	206
KRW 205 billion Subordinated debt 2009	218	200
KRW 160 billion Subordinated debt 2008	167	157
KRW 136 billion Subordinated debt 2007	146	133
KRW 104 billion Subordinated debt 2007	109	102
KRW 40 billion Subordinated debt 2006	–	40
KRW 30 billion Subordinated debt 2011	32	29
KRW 27 billion Subordinated debt 2008	29	27
BWP 50 million Fixed and Floating Rate Subordinated Notes 2015	8	9
TZS 8 billion Subordinated Notes 2015	6	7
KRW 3 billion Subordinated debt 2011	3	3
€675 million Floating Rate Notes 2018	885	–
\$100 million Floating Rate Notes 2018	100	–
IDR 500 billion Floating Rate Notes 2016	24	–
PKR 750 million Floating Rate Notes 2008	11	–
PKR 750 million Floating Rate Notes 2011	12	–
PKR 1 billion Floating Rate Notes 2015	17	–
TWD 8 billion Floating Rate Notes 2007	246	–
TWD 10 billion undated Floating Rate Notes	306	–
£675 million 5.375 per cent undated step up Subordinated Notes (callable 2020)	1,252	1,156
	10,738	8,448
Subordinated loan capital – issued by Company		
Primary Capital Floating Rate Notes:		
\$400 million	400	400
\$300 million (Series 2)	300	300
\$400 million (Series 3)	400	400
\$200 million (Series 4)	200	200
£150 million	294	258
Other borrowings – issued by Company	*367	*343
	1,961	1,901
Total for Group	12,699	10,349
Total for Company	1,977	1,893

* In the balance sheet of the Company the amount recognised is \$383 million (2005: \$335 million) with the difference being the effect of hedge accounting achieved on a Group basis.

Notes to the Accounts continued

36. Subordinated Liabilities and Other Borrowed Funds continued

All Subordinated liabilities described above are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Of total Subordinated liabilities and other borrowings, \$5,118 million is at fixed interest rates (31 December 2005: \$6,151 million).

In March 2006, the Group bought back \$221 million 5.75 per cent Upper Tier 2 and \$108 million 6.25 per cent Lower Tier 2 Subordinated debt.

On 11 May 2006, the bank issued Innovative Tier 1 capital in the form of £300 million Step-up Callable Preferred Securities at a price of 116.801 per cent, as a tap on the £300 million Preferred

Securities issued in May 2001. The two issues were consolidated and formed a single series with effect from 11 May 2006. The Preferred Securities pay an annual coupon of 8.103 per cent and are perpetual, with a call date of 11 May 2016 and at every coupon date thereafter.

On 29 November 2006, the Group issued €675 million Floating Rate Step Up Dated Subordinated Notes due 2018, and \$100 million Floating Rate Step Up Dated Subordinated Notes due 2018.

On 15 December 2006, Permata issued IDR 500 billion Floating Rate Notes, which have a maturity of 10 years with an issuer's call option after five years.

The KRW40 billion Subordinated debt 2006 was redeemed in December 2006.

37. Share Capital

The authorised share capital of the Company at 31 December 2006 was \$5,113 million (2005: \$4,857 million) made up of 2,632 million ordinary shares of \$0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of \$5 each and one million non-cumulative redeemable preference share of €1,000 each.

As at 31 December 2006, 7,500 \$5 non-cumulative redeemable preference shares were in issue. The irredeemable preference shares of £1 each were reclassified to other borrowed funds from 1 January 2005 upon adoption of IAS 32.

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital \$million	Preference share capital \$million	Total \$million
At 1 January 2005	1,179	590	2	592
Capitalised on scrip dividend	4	2	–	2
Shares issued	133	66	–	66
At 31 December 2005	1,316	658	2	660
Capitalised on scrip dividend	15	7	–	7
Shares repurchased	–	–	(2)	(2)
Shares issued	53	27	–	27
At 31 December 2006	1,384	692	–	692

On 12 January 2006, the Company issued 3,401,290 new ordinary shares at an average price of 1301 pence per share representing approximately 0.3 per cent of the Company's existing issued ordinary share capital. The middle market price on 12 January 2006 was 1323 pence. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited.

On 2 October 2006, the Company repurchased the remaining 328,388 8.9 per cent non-cumulative preference shares. The preference shares were repurchased at a premium of \$326 million and were cancelled.

On 4 October 2006, the Company issued 48,500,000 ordinary shares of US\$0.50 each at a placing price of 1375 pence per share representing approximately 3.7 per cent of the Company's existing issued ordinary share capital. The middle market price on 4 October 2006 was 1363 pence. The issue of ordinary shares was used to acquire HIB.

On 12 May 2006, the Company issued 9,960,348 new ordinary shares instead of the 2005 final dividend. On 11 October 2006, the Company issued 4,912,941 new ordinary shares instead of the 2006 interim dividend.

On 8 December 2006, the Company issued 7,500 non-cumulative redeemable preference shares of \$5 each at a placing price of \$100,000 each. The shares are redeemable at the option of the Company and have discretionary coupon payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

The holding of Standard Chartered PLC shares for the beneficiaries of the Group's share based award schemes is set out in note 38.

38. Reserves

Group

	Share** premium account \$million	Capital reserve \$million	Capital redemption reserve \$million	Merger reserve \$million	Available for sale reserve \$million	Cash flow hedge reserve \$million	Translation reserve \$million	Retained* earnings \$million	Total \$million
At 1 January 2005	2,835	5	11	–	73	42	96	5,227	8,289
Recognised income and expenses	–	–	–	–	(50)	(62)	(90)	1,865	1,663
Capitalised on scrip dividend	(2)	–	–	–	–	–	–	–	(2)
Shares issued, net of expenses	201	–	–	1,944	–	–	–	–	2,145
Net own shares adjustment	–	–	–	–	–	–	–	(73)	(73)
Share option expense and related taxation	–	–	–	–	–	–	–	123	123
Dividends, net scrip	–	–	–	–	–	–	–	(712)	(712)
Debt recognition premium	–	–	–	–	–	–	–	(211)	(211)
At 31 December 2005	3,034	5	11	1,944	23	(20)	6	6,219	11,222
Recognised income and expenses	–	–	–	–	387	71	672	2,354	3,484
Capitalised on scrip dividend	(7)	–	–	–	–	–	–	–	(7)
Shares issued, net of expenses	838	–	–	1,205	–	–	–	–	2,043
Shares repurchased	(326)	–	2	–	–	–	–	(2)	(326)
Net own shares adjustment	–	–	–	–	–	–	–	149	149
Share option expense and related taxation	–	–	–	–	–	–	–	115	115
Dividends, net scrip	–	–	–	–	–	–	–	(519)	(519)
At 31 December 2006	3,539	5	13	3,149	410	51	678	8,316	16,161

* Premises revaluation reserve, which represents revaluations made prior to the adoption of IFRS by the Group on 1 January 2004, has been transferred to retained earnings.

** The share premium account has been restated in 2005 to transfer to the merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

Transaction costs relating to share issues deducted from reserves account total \$20 million (2005: \$25 million).

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2005: \$27 million).

Capital reserves represent the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

Capital redemption reserve represents the repurchase of preference shares.

Available-for-sale reserve is the fair value movement of financial assets classified as available-for-sale. Gains and losses are deferred to this reserve until such time as the underlying asset is sold or matures.

Cash flow hedge reserve is the fair value movement of derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred to this reserve until such time as the underlying hedged item affects profit and loss.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve until such time as the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings are the carried forward recognised income and expenses of the Group plus current period recognised income and expenses less dividend distribution, treasury shares and share option expenses.

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

Shares of the Group held for the beneficiaries of the Group's share based payment schemes

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust ("the 1995 trust"), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust ("the 2004 trust") which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trust. As part of these arrangements Group companies fund the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards. All shares have been acquired through the London Stock Exchange.

The 1995 trust has not acquired any shares in the year ended 31 December 2006 (2005: 11,700,000 Standard Chartered PLC shares were acquired from the Company for an aggregate price of \$211 million). The shares are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Performance Share Plan and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 1995 trust held 2,148,874 (2005: 13,631,745) shares, of which all (2005: 11,521,682) have vested unconditionally.

Notes to the Accounts continued

38. Reserves continued

During the current year the 2004 trust has acquired, at market value, 301,952 (2005: 422,659) Standard Chartered PLC shares for an aggregate price of \$9 million (2005: \$8 million), which are held in a pool for the benefit of participants under the Group's deferred bonus plan. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 2004 trust held 311,157 (2005: 409,160) Standard Chartered PLC shares, of which none (2005: 7,333) have vested unconditionally.

Own shares held total 2,460,031 at 31 December 2006 (2005: 14,040,907).

Except as disclosed above, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2006.

Company

	Share* premium account \$million	Capital reserve \$million	Capital redemption reserve \$million	Merger* reserve \$million	Retained earnings \$million	Total \$million
At 1 January 2005	2,835	5	11	–	694	3,545
Recognised income and expenses	–	–	–	–	798	798
Capitalised on scrip dividend	(2)	–	–	–	–	(2)
Shares issued, net of expenses	201	–	–	1,944	–	2,145
Net own shares adjustment	–	–	–	–	(73)	(73)
Share option expense and related taxation	–	–	–	–	52	52
Dividends net scrip	–	–	–	–	(712)	(712)
At 31 December 2005	3,034	5	11	1,944	759	5,753
Recognised income and expenses	–	–	–	–	683	683
Capitalised on scrip dividend	(7)	–	–	–	–	(7)
Shares issued, net of expenses	838	–	–	1,205	–	2,043
Shares repurchased	(326)	–	–	–	–	(326)
Net own shares adjustment	–	–	–	–	149	149
Transfer to Capital Redemption Reserve	–	–	2	–	(2)	–
Share option expense and related taxation	–	–	–	–	67	67
Dividends net scrip	–	–	–	–	(519)	(519)
At 31 December 2006	3,539	5	13	3,149	1,137	7,843

* The share premium account has been restated in 2005 to transfer to the merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

39. Minority Interests

	£200m 2022 Step-Up Notes \$million	£300m 8.103% Step-Up Callable Perpetual Trust \$million	\$300m 7.267% Hybrid Tier-1 Securities \$million	Other minority interests \$million	Total \$million
At 1 January 2005	396	598	–	960	1,954
Arising on acquisitions	–	–	333	–	333
Appropriation in respect of exchange translation	(43)	(64)	–	(1)	(108)
Other profits attributable to minority interests	26	41	14	52	133
Recognised income and expenses	(17)	(23)	14	51	25
Distributions	(26)	(42)	(11)	(39)	(118)
Reductions	(353)	(533)	–	(857)	(1,743)
At 31 December 2005	–	–	336	115	451
Arising on acquisitions	–	–	–	17	17
Income/expenses in equity attributable to minority interests	–	–	–	35	35
Other profits attributable to minority interests	–	–	19	57	76
Recognised income and expenses	–	–	19	92	111
Distributions	–	–	(22)	(33)	(55)
Other increases	–	–	–	20	20
At 31 December 2006	–	–	333	211	544

In September 2006, the Group acquired 95.4 per cent of Union and in October 2006, 96.2 per cent of HIB. Union was subsequently amalgamated with the Standard Chartered Bank

branches in Pakistan into Standard Chartered (Pakistan) Limited, increasing the Group's shareholding to 99.0 per cent. Further details are disclosed in note 23 of the financial statements.

40. Share Based Payments

The Group operates a number of share based payment schemes for its directors and employees.

The total charge for the year relating to employee share based payment plans was \$96 million (2005: \$78 million) of which \$67 million (2005: \$64 million) relates to equity settled awards, and \$29 million (2005: \$14 million) relates to cash settled awards. After deferred tax, the total charge was \$93 million (2005: \$68 million).

1994 Executive Share Option Scheme (closed)

No awards have been made under this scheme since August 1999 as the scheme was replaced by the 2000 Executive Share Option Scheme. Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price is the share price at the date of grant and options can only be exercised if EPS increases by at least 15 per cent over three consecutive years.

2000 Executive Share Option Scheme

The 2000 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 the Company 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.

2001 Performance Share Plan

The Performance Share Plan is designed to be an intrinsic part of total remuneration for the Group's executive directors and for a small number of the 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 Group. The performance criteria which need to be met are set out in the Directors' Remuneration Report on pages 61 to 64. 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 Group. There is provision for earlier exercise in certain limited circumstances.

1997/2006 Restricted Share Scheme

The Group operates a discretionary Restricted Share Scheme ("RSS") for high performing and high potential staff at any level of the organisation whom the 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. 50 per cent of the award vests two years after the date of grant and the balance after three years. The awards 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.

In addition, the Group operates a Supplementary Restricted Share Scheme which can be used to defer part of an employee's annual bonus in shares. The plan is principally used for employees in the global markets area and is similar to the RSS outlined above except for three important factors: directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit. No awards were made under this scheme in 2005 and 2006, and none are outstanding as at 31 December 2004, 2005 and 2006.

2004 Deferred Bonus Plan

Under the 2004 Deferred Bonus Plan, shares are conditionally awarded instead of all or part of the directors' annual cash bonus. Further details are contained in the Directors' Remuneration Report on page 70.

All Employee Sharesave Schemes

No awards have been made under the 1994 UK Sharesave and 1996 International Sharesave schemes since 2003, as these were replaced by the 2004 UK and International Sharesave schemes. 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 the Company. 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.

In some countries in which the Group operates it is not possible to operate Sharesave schemes, typically because of securities law, regulatory or other similar issues. In these countries the Group offers an equivalent cash-based scheme to its employees.

Notes to the Accounts continued

40. Share Based Payments continued

1994 Executive Share Option Scheme ("1994 ESOS")

Awards made under this scheme are not subject to the valuation criteria of IFRS 2, as all awards are granted prior to 7 November 2002, and are all vested as at that date.

A reconciliation of option movements over the year to 31 December 2006 and 2005 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	1,114,542	£7.64	2,252,949	£7.27
Granted	–	–	–	–
Lapsed	(4,830)	£7.29	(59,250)	£5.09
Exercised	(750,505)	£7.39	(1,079,157)	£7.00
Outstanding at 31 December	359,207	£8.18	1,114,542	£7.64
Exercisable at 31 December	359,207	£8.18	1,114,542	£7.64

	2006			2005		
	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
Range of exercise price						
£6.20/£8.88	£8.18	359,207	1.1 years	–	–	–
£3.87/£8.88	–	–	–	£7.64	1,114,542	1.9 years

The intrinsic value of vested 1994 ESOS cash settled awards as at 31 December 2006 was \$0.3 million (2005: \$0.7 million).

2000 Executive Share Option Scheme ("2000 ESOS")

No share awards were granted during 2006.

Valuation

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:

	2005	
	14 June	9 March
Grant date		
Share price at grant date	£10.395	£9.71
Exercise price	£10.395	£9.71
Shares under option as at 31 December	153,839	752,938
Vesting period (years)	3	3
Expected volatility (%)	31.6	32.3
Expected option life (years)	5	5
Risk free rate (%)	4.6	4.9
Expected dividends (yield) (%)	3.5	3.5
Fair value (£)	2.53	2.57

The expected volatility is based on historical volatility over the last five years or 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.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of Shares	Weighted average exercise price	No. of Shares	Weighted average exercise price
Outstanding at 1 January	23,634,660	£8.08	30,707,971	£8.00
Granted	–	–	906,777	£9.83
Lapsed	(204,514)	£9.77	(508,060)	£7.87
Exercised	(8,455,950)	£7.52	(7,472,028)	£7.99
Outstanding at 31 December	14,974,196	£8.37	23,634,660	£8.08
Exercisable at 31 December	8,758,519	£7.63	8,303,114	£8.21

40. Share Based Payments continued

Range of exercise price	2006			2005		
	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
£6.905/£10.395	£8.37	14,974,196	6.2 years	—	—	—
£6.905/£10.395	—	—	—	£8.08	23,634,660	7 years

The intrinsic value of vested 2000 ESOS cash-settled awards as at 31 December 2006 was \$6 million (2005: \$4 million).

The weighted average share price at the time the options were exercised for both the 1994 and 2000 ESOS schemes during 2006 was £14.59 (2005: £11.21).

2001 Performance Share Plan ("2001 PSP")

Valuation

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.

Grant Date	2006			2005	
	12 September	11 May	14 March	20 September	9 March
Share price at grant date	£13.17	£14.60	£14.35	£11.89	£9.71
Shares under option as at 31 December	155,219	274,689	1,678,707	8,410	1,488,580
Vesting period (years)	3	3	3	3	3
Expected dividends (yield) (%)	3.2	3.0	3.0	3.5	3.7
Fair value (EPS) (£)	6.00	6.67	6.56	5.36	4.35
Fair value (TSR) (£)	2.60	2.89	2.84	2.31	1.89

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant. The EPS and TSR fair value relates to the performance criteria to be satisfied as explained in the Directors' Remuneration Report. 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.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	3,919,726	—	3,066,957	—
Granted	2,125,493	—	1,505,589	—
Lapsed	(101,878)	—	(199,379)	—
Exercised	(966,742)	—	(453,441)	—
Outstanding at 31 December	4,976,599	—	3,919,726	—
Exercisable at 31 December	405,798	—	390,792	—

Range of exercise price	2006			2005		
	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
n/a	—	4,976,599	8.3 years	—	3,919,726	8.1 years

There are no vested 2001 PSP cash settled awards as at 31 December 2005 and 2006.

The weighted average share price at the time the options were exercised during 2006 was £14.69 (2005: £10.05).

Notes to the Accounts continued

40. Share Based Payments continued

1997/2006 Restricted Share Scheme ("1997/2006 RSS")

Valuation

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.

Grant date	2006			2005		
	12 September	11 May	14 March	20 September	14 June	9 March
Share price at grant date	£13.17	£14.60	£14.35	£11.89	£10.395	£9.71
Shares under option as at 31 December	191,162	18,630	1,420,942	427,472	36,335	2,431,561
Vesting period (years)	2/3	2/3	2/3	2/3	2/3	2/3
Expected dividends (yield) (%)	3.2	3.0	3.0	3.5	3.5	3.5
Fair value (£)	12.00	13.34	13.12	10.72	9.55	8.92

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

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	6,410,044	–	5,396,020	–
Granted	1,691,508	–	2,993,901	–
Lapsed	(312,453)	–	(235,377)	–
Exercised	(1,490,713)	–	(1,744,500)	–
Outstanding at 31 December	6,298,386	–	6,410,044	–
Exercisable at 31 December	1,330,250	–	1,613,044	–

The weighted average share price at the time the options were exercised during 2006 was £14.35 (2005: £10.71).

	2006			2005		
	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
Range of exercise price	–	6,298,246	4.9 years	–	6,410,044	4.6 years
n/a	–	6,298,246	4.9 years	–	6,410,044	4.6 years

The intrinsic value of vested 1997/2006 RSS cash-settled awards as at 31 December 2006 was \$5 million (2005: \$4 million).

1994/1996 UK and International Sharesave Scheme

Grants made under these schemes which had not vested as at 7 November 2002 are fair valued under IFRS 2.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of Shares	Weighted average exercise price	No. of Shares	Weighted average exercise price
Outstanding at 1 January	3,167,779	£6.17	7,278,112	£5.90
Granted	–	–	–	–
Lapsed	(155,845)	£6.22	(597,340)	£5.92
Exercised	(1,468,150)	£6.22	(3,512,993)	£5.66
Outstanding at 31 December	1,543,784	£6.12	3,167,779	£6.17
Exercisable at 31 December	462,721	£6.63	442,038	£5.85

	2006			2005		
	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
Range of exercise price	£3.34/£7.23	1,543,784	1.2 years	–	–	–
£3.34/£7.23	–	–	–	£6.17	3,167,779	1.8 years

The intrinsic value of vested 1994/1996 UK and International Sharesave cash-settled awards as at 31 December 2006 was \$6 million (2005: \$2 million).

40. Share Based Payments continued

2004 UK and International Sharesave Scheme

Valuation

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:

	2006		2005	
	12 September	8 September	20 September	8 September
Grant date				
Share price at grant date	£13.17	£13.03	£11.89	£12.25
Exercise price	£10.64	£10.64	£9.87	£9.87
Shares under option as at 31 December	3,761,478	269,114	5,537,252	307,238
Vesting period (years)	3/5	3/5	3/5	3/5
Expected volatility (%)	20.5/28.9	20.5/29.6	24.4/31.3	24.8/31.5
Expected option life (years)	3.33/5.33	3.33/5.33	3.33/5.33	3.33/5.33
Risk free rate (%)	4.9/4.8	4.8/4.7	4.2	4.1
Expected dividends (yield) (%)	3.1/3.5	3.1/3.5	3.7/3.5	3.7/3.5
Fair value (£)	3.35/4.07	3.31/4.05	2.88/3.03	2.99/3.77

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The

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

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	7,892,513	£9.24	2,375,938	£7.43
Granted	4,035,972	£10.64	5,902,540	£9.87
Lapsed	(756,606)	£9.07	(382,193)	£7.80
Exercised	(15,968)	£7.95	(3,772)	£7.43
Outstanding at 31 December	11,155,911	£9.76	7,892,513	£9.24
Exercisable at 31 December	—	—	—	—

	2006			2005		
	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
Range of exercise price						
£7.43/£10.64	£9.76	11,155,911	3.0 years	—	—	—
£7.43/£9.87	—	—	—	£9.24	7,892,513	3.6 years

The weighted average share price at the time the options were exercised for all UK and International Sharesave schemes during 2006 was £13.90 (2005: £11.64).

Notes to the Accounts continued

41. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

	Group		Company	
	2006 \$million	2005 \$million	2006 \$million	2005 \$million
Cash and balances at central banks	7,698	8,012	–	–
Less restricted balances	(3,958)	(4,269)	–	–
Treasury bills and other eligible bills	6,233	4,049	–	–
Loans and advances to banks	16,084	17,590	–	–
Trading securities	12,104	9,844	–	–
Amounts owed by and due to subsidiary undertakings	–	–	2,028	1,590
Total	38,161	35,226	2,028	1,590

42. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2006 \$million	2005* \$million
Contracted	19	68

* Restated to present on a consistent basis.

43. Operating Lease Commitments

	2006		2005*	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
Within one year	156	3	110	4
Later than one year and less than five years	358	4	307	3
After five years	529	–	572	–
	1,043	7	989	7

* Restated to present on a consistent basis.

During the year \$155 million (2005: \$93 million) was recognised as an expense in the income statement in respect of operating leases.

The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2006 are \$17 million (2005: \$17 million).

44. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

The credit equivalent and risk weighted amounts have been calculated in accordance with the Financial Services Authority guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

	2006			2005		
	Contract or underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million	Contract or underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million
Contingent liabilities*						
Guarantees and irrevocable letters of credit	18,344	12,784	9,398	15,952	11,106	7,704
Other contingent liabilities	9,046	7,139	5,418	6,295	5,134	2,995
	27,390	19,923	14,816	22,247	16,240	10,699
Commitments*						
Documentary credits and short term trade-related transactions	5,029	1,006	845	3,730	746	572
Forward asset purchases and forward deposits placed	31	31	10	141	141	28
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	14,083	7,042	3,693	11,128	5,564	3,956
Less than one year	20,543	–	–	18,690	–	–
Unconditionally cancellable	29,858	–	–	28,705	–	–
	69,544	8,079	4,548	62,394	6,451	4,556

* Includes amounts relating to the Group's share of its joint ventures.

45. Repurchase and Reverse Repurchase Agreements

The Group enters into collateralised reverse repurchase and repurchase agreements and securities borrowing and lending transactions. It also receives securities as collateral for commercial lending.

Balance sheet assets

	2006 Reverse repurchase agreements \$million	2005 Reverse repurchase agreements \$million
Banks	1,359	1,267
Customers	630	185
	1,989	1,452

Balance sheet liabilities

	2006 Repurchase agreements \$million	2005 Repurchase agreements \$million
Banks	1,449	961
Customers	681	964
	2,130	1,925

Notes to the Accounts continued

45. Repurchase and Reverse Repurchase Agreements continued

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2006 \$million	2005 \$million
Securities and collateral which can be repledged or sold (at fair value)	1,379	1,434
Thereof repledged/transferred to others for financing activities or to satisfy commitments under short sale transactions (at fair value)	866	629

46. Interest Rate Risk

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched, but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. The Group and Company use derivatives to manage effective interest rates whether or not hedge accounting is achieved. In particular, interest rate swaps are used to exchange fixed rates of interest for floating rates of interest.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

	2006							
	Effective interest rates %	Three months or less \$million	Between three months and six months \$million	Between six months and one year \$million	Between one year and five years \$million	More than five years \$million	Non-interest bearing \$million	Total \$million
Assets								
Cash and balances at central banks	3.1	2,717	51	–	–	–	4,930	7,698
Derivative financial instruments	N/A	13,154	–	–	–	–	–	13,154
Loans and advances to banks*	5.0	16,017	1,908	794	791	66	1,488	21,064
Loans and advances to customers*	7.1	97,800	11,047	8,918	13,058	9,701	–	140,524
Investment securities*	4.7	28,422	7,266	11,689	11,144	2,477	1,670	62,668
Other assets	N/A	1,222	–	–	68	–	19,649	20,939
Total assets	6.1	159,332	20,272	21,401	25,061	12,244	27,737	266,047
Liabilities								
Deposits by banks*	4.4	21,392	2,058	1,872	308	290	2,202	28,122
Customer accounts*	3.8	115,498	7,886	7,664	2,994	407	14,839	149,288
Derivative financial instruments	N/A	13,703	–	–	–	–	–	13,703
Debt securities in issue*	4.8	14,235	2,437	5,143	4,912	72	–	26,799
Other liabilities	N/A	7,262	17	–	–	–	10,760	18,039
Subordinated liabilities and other borrowed funds*	4.7	–	–	1,326	3,316	8,057	–	12,699
Total liabilities	4.0	172,090	12,398	16,005	11,530	8,826	27,801	248,650
Off balance sheet items		(14)	(199)	139	58	16	–	–
Interest rate sensitivity gap		(12,772)	7,675	5,535	13,589	3,434	(64)	17,397
Cumulative gap		(12,772)	(5,097)	438	14,027	17,461	17,397	

* Includes balances subject to fixed rates of interest. Financial assets and liabilities with fixed interest total \$74,151 million (2005: \$59,678 million) and \$116,852 million (2005: \$105,385 million) respectively.

Note: Investment securities, Loans and advances to banks, and Loans and advances to customers within notes 46 and 48, include financial assets held at fair value.

46. Interest Rate Risk continued

	2005*							
	Effective interest rates %	Three months or less \$million	Between three months and six months \$million	Between six months and one year \$million	Between one year and five years \$million	More than five years \$million	Non-interest bearing \$million	Total \$million
Assets								
Cash and balances at central banks	1.2%	841	–	–	–	–	7,171	8,012
Derivative financial instruments	N/A	9,370	–	–	–	–	–	9,370
Loans and advances to banks	3.3%	17,997	1,059	880	664	82	2,277	22,959
Loans and advances to customers	6.1%	84,343	8,575	5,685	8,351	5,223	–	112,177
Investment securities	4.0%	18,681	12,213	6,698	6,011	1,809	1,140	46,552
Other assets	N/A	894	–	–	87	–	15,045	16,026
Total assets	5.1%	132,126	21,847	13,263	15,113	7,114	25,633	215,096
Liabilities								
Deposits by banks	2.9%	13,612	4,293	690	441	16	1,221	20,273
Customer accounts	2.6%	93,811	6,082	6,268	1,564	141	13,073	120,939
Derivative financial instruments	N/A	9,864	–	–	–	–	–	9,864
Debt securities in issue	3.1%	10,541	6,835	6,478	3,065	495	–	27,414
Other liabilities	N/A	3,868	–	–	–	–	10,056	13,924
Subordinated liabilities and other borrowed funds	4.8%	–	–	142	2,345	7,862	–	10,349
Total liabilities	2.9%	131,696	17,210	13,578	7,415	8,514	24,350	202,763
Off balance sheet items		(494)	166	(372)	700	–	–	–
Interest rate sensitivity gap		(64)	4,803	(687)	8,398	(1,400)	1,283	12,333
Cumulative gap		(64)	4,739	4,052	12,450	11,050	12,333	

* Restated to present on a consistent basis.

The Company incurs interest rate risk on its subordinated liabilities and other borrowings. \$1,594 million (2005: \$1,558 million) is at floating rates maturing over five years. \$367 million (2005: \$343 million) is fixed rate maturing over five years. The effective yield is 5.8 per cent (2005: 4.8 per cent).

47. Credit Risk

At 31 December 2006, the maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is detailed below. No account has been taken of any collateral held and the maximum exposure to loss is considered to be the instruments' balance sheet carrying amount or, for non-derivative off-balance sheet transactions, their contractual nominal amounts.

	2006 \$million	2005 \$million
Financial assets held at fair value through profit or loss	15,715	10,333
Derivative financial instruments	13,154	9,370
Amounts available for offset*	(6,425)	(4,859)
	6,729	4,511
Loans and advances to banks and customers	159,054	133,492
Investment securities	49,487	37,863
Contingent liabilities	27,390	22,247
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	34,626	29,818
	293,001	238,264

* Amounts available for offset under master netting arrangements do not meet the criteria under IAS 32 to enable derivative balances to be presented on a net basis in the financial statements.

Notes to the Accounts continued

48. Liquidity Risk

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. Contractual maturities do not necessarily reflect actual repayments or cash flow.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

	2006				
	Three months or less \$million	Between three months and one year \$million	Between one year and five years \$million	More than five years \$million	Total \$million
Assets					
Cash and balances at central banks	3,740	–	–	3,958	7,698
Derivative financial instruments	2,710	4,178	4,190	2,076	13,154
Loans and advances to banks	16,214	2,305	2,403	142	21,064
Loans and advances to customers	44,062	23,590	28,771	44,101	140,524
Investment securities	19,311	20,141	18,207	5,009	62,668
Other assets	1,316	509	789	18,325	20,939
Total assets	87,353	50,723	54,360	73,611	266,047
Liabilities					
Deposits by banks	24,109	3,360	621	32	28,122
Customer accounts	125,790	19,061	3,233	1,204	149,288
Derivative financial instruments	2,766	5,278	4,006	1,653	13,703
Debt securities in issue	8,382	9,216	8,231	970	26,799
Other liabilities	2,533	523	887	14,096	18,039
Subordinated liabilities and other borrowed funds	–	501	2,440	9,758	12,699
Total liabilities	163,580	37,939	19,418	27,713	248,650
Net liquidity gap	(76,227)	12,784	34,942	45,898	17,397

	2005				
	Three months or less \$million	Between three months and one year \$million	Between one year and five years \$million	More than five years \$million	Total \$million
Assets					
Cash and balances at central banks	4,372	–	23	3,617	8,012
Derivative financial instruments	3,668	2,055	1,960	1,687	9,370
Loans and advances to banks	18,090	2,623	2,164	82	22,959
Loans and advances to customers	31,770	20,303	23,196	36,908	112,177
Investment securities	14,764	13,818	13,177	4,793	46,552
Other assets	2,295	360	690	12,681	16,026
Total assets	74,959	39,159	41,210	59,768	215,096
Liabilities					
Deposits by banks	16,597	2,740	879	57	20,273
Customer accounts	103,289	14,451	2,371	828	120,939
Derivative financial instruments	4,290	2,365	2,810	399	9,864
Debt securities in issue	7,246	14,168	5,064	936	27,414
Other liabilities	1,919	587	732	10,686	13,924
Subordinated liabilities and other borrowed funds	–	–	2,741	7,608	10,349
Total liabilities	133,341	34,311	14,597	20,514	202,763
Net liquidity gap	(58,382)	4,848	26,613	39,254	12,333

The Company has financial liabilities of \$1,977 million (2005: \$1,893 million) maturing in five years or more.

49. Currency Risk

The following tables show the extent of the Group's exposure to foreign currency risk (which is principally structured) at 31 December 2006.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

	2006 (\$million)							
	US dollar	HK dollar	Korean won	Singapore dollar	Malaysian ringgit	Indian rupee	British pound	Other currencies
Total assets	57,987	37,102	61,844	16,000	10,503	10,104	9,737	62,770
Total liabilities	57,215	34,062	56,754	14,838	9,837	9,099	9,573	57,272
Net position	772	3,040	5,090	1,162	666	1,005	164	5,498

	2005 (\$million)							
	US dollar	HK dollar	Korean won	Singapore dollar	Malaysian ringgit	Indian rupee	British pound	Other currencies
Total assets	52,970	31,890	55,801	13,801	7,880	8,535	6,606	37,613
Total liabilities	52,780	28,902	51,689	12,691	7,324	7,416	6,837	35,124
Net position	190	2,988	4,112	1,110	556	1,119	(231)	2,489

The Company's assets and liabilities are predominantly in US dollars. It has assets of \$732 million (2005: \$254 million) and liabilities of \$738 million (2005: \$282 million) other than US dollars.

The Group's main operations in non-US dollar units were Asia, Africa, India and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore

include Hong Kong dollar, Malaysian ringgit, Singapore dollar, Indian rupee and British pound. The Group prepares its consolidated financial statements in US dollars, and the Group's equity is affected by movements in the exchange rates between functional currencies and US dollars.

The Risk Review on pages 34 to 48 explains the risk management with respect to the Group's hedging policies.

Notes to the Accounts continued

50. Fair Value of Financial Assets and Liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2006		2005	
	Book amount \$million	Fair value \$million	Book amount \$million	Fair value \$million
Assets				
Cash and balances at central banks	7,698	7,698	8,012	8,012
Loans and advances to banks	19,724	19,727	21,671	21,671
Loans and advances to customers	139,330	139,677	111,686	111,863
Investment securities	2,786	2,754	1,479	1,470
Liabilities				
Deposits by banks	26,233	26,184	18,834	18,834
Customer accounts	147,382	147,492	119,931	119,922
Debt securities in issue	23,514	23,518	25,913	25,883
Subordinated liabilities and other borrowed funds	12,699	12,877	10,349	10,543

The following sets out the Group's basis of establishing fair values of the financial instruments shown above and those financial assets classified as available-for-sale and financial assets and liabilities held at fair value through profit and loss as disclosed within notes 13, 16, 17 and 21. The Group's basis for establishing the fair value of financial assets and liabilities held at fair value through profit or loss and of derivatives is set out in note 1.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money-market rates for debts with a similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

Investment securities with observable market prices, including debt and equity securities, are fair valued using that information. Equity instruments held that do not have observable market data are presented at cost. Debt securities that do not have observable market data are fair valued by either discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

51. Market Risk

Trading book

	2006				2005			
	Average \$million	High \$million	Low \$million	Actual \$million	Average \$million	High \$million	Low \$million	Actual \$million
Daily value at risk:								
Interest rate risk	3.5	5.3	2.5	3.9	4.0	5.5	3.1	3.9
Foreign exchange risk	2.6	4.1	1.4	1.5	1.5	2.8	1.0	1.1
Total	4.3	5.6	3.1	4.0	4.3	5.9	3.3	3.9

This note should be read in conjunction with the market risk section of the Risk Review on page 46 which explains the Group's market risk management.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group Trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. The highest and lowest VaR are independent and could have occurred on different days.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year and involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic

data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the GRC.

52. Restatement of Prior Periods

Segmental analysis

The Group has refined its method of charging for and allocating capital and, as a consequence, the segmental result for the year ended 31 December 2005 has been restated. There has been no effect on the Group's total reported numbers but the effect on the business and geographic segments is set out below.

	2005			
	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Operating income as previously reported	3,807	3,054	–	6,861
Restatement	(5)	5	–	–
Operating income as restated	3,802	3,059	–	6,861

	2005									
	Asia Pacific					Americas				Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	UK & Group Head Office \$million	
Operating income as previously reported	1,512	510	333	954	1,054	590	808	551	549	6,861
Restatement	(28)	4	2	3	3	3	4	2	7	–
Operating income as restated	1,484	514	335	957	1,057	593	812	553	556	6,861

Notes to the Accounts continued

53. Related Party Transactions

Directors and Officers

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 61 to 73.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises members of the Group Management Committee, which includes all executive directors.

	2006 \$million	2005 \$million
Salaries, allowances and benefits in kind	14	13
Pension contributions	5	1
Bonuses paid or receivable	17	17
Share based payments	16	12
	52	43

Transactions with directors, officers and others

At 31 December 2006, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the HK Listing Rules about loans to directors and officers were as follows:

	2006		2005	
	Number	\$000	Number	\$000
Directors	–	–	2	22
Officers*	2	203	2	261

* For this disclosure, the term 'officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the company secretary.

As at 31 December 2006, Standard Chartered Bank had created a charge over \$6 million of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

Other than as disclosed in this Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

Joint ventures

During 2006 the Group made an additional investment in PT Bank Permata Tbk as disclosed in note 22 and has loans and advances from PT Bank Permata Tbk totalling \$8 million at 31 December 2006 (2005: \$28 million).

Associates

During 2006 the Group acquired interests in First Africa Holdings Limited and Flemings Family & Partners Limited as disclosed in note 22.

During 2005, the Group contributed \$128 million to the establishment of China Bohai Bank Limited as disclosed in note 22. As at 31 December 2006 the Group has loans to China Bohai Bank Limited of \$54 million.

On 30 June 2006 the Group sold a loan portfolio to China Bohai Bank Limited at net book value for a cash consideration of \$92 million.

Company

The Company has received \$85 million of interest income from Standard Chartered Bank. The Company issues debt externally and lends the proceeds to Group companies. At 31 December 2006 it has loans to and debt instruments issued by Standard Chartered Bank of \$3,180 million (2005: \$1,796 million), loans of \$nil million (2005: \$40 million) to Standard Chartered Holdings Limited and loans of \$1 million (2005: \$3 million) to other subsidiaries.

At 31 December 2006, the Company held an amount of \$1,151 million owed to Standard Chartered Holdings Limited (2005: \$nil million). This amount is repayable on demand and is non-interest bearing.

In 2005 the Company licensed intellectual property rights related to the Company's main brands to an indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited. At the year end \$1,362 million (2005: \$1,453 million) has been included as deferred income in the Company balance sheet in relation to this, with amortisation recognised as income by the Company.

During 2006 Standard Chartered Bank redeemed \$1 billion of preference shares held by the Company, which in turn purchased \$1,901 million of ordinary shares issued by Standard Chartered Holdings Limited.

The Company has an agreement with Standard Chartered Bank that in the event of the Bank defaulting on its debt coupon interest payments, the Company would grant the option to the Bank's debt holders to receive shares issued by the Company, as settlement for non-payment of the coupon interest.

54. Post Balance Sheet Events

On 26 January 2007, the Group announced the sale of its mutual funds manufacturing business in India to a subsidiary of UBS for a total cash consideration of approximately \$120 million. The

transaction is expected to complete in the second half of 2007, subject to regulatory approvals.

55. Significant Accounting Estimates and Judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgements in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes.

Loan loss provisioning

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Goodwill impairment

An annual assessment is made, as set out in note 24, as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement.

Acquired intangible assets

Acquired intangible assets are those that derive their value from contractual customer relationships or that can be separated and sold, and are amortised over their estimated useful lives. They comprise customer relationships, core deposits, brands and acquired licences. The valuation and estimated useful lives of customer relationships, core deposits and brands is dependent on a number of assumptions and judgements, such as expected cash flows, customer attrition, royalty rates and applicable costs, variations in which could produce different values and/or useful lives.

For example, if the royalty rates were increased by one per cent per annum (or decreased by one per cent per annum) the value of the brand names acquired in the acquisitions of Union and Hsinchu in 2006 would increase by approximately \$18 million

(or decrease by \$19 million). Likewise, if the attrition rates were increased by one per cent per quarter (or decreased by one per cent per quarter) the value of the core deposits acquired in the acquisitions of Union and Hsinchu in 2006 would decrease by approximately \$20 million (or increase by approximately \$18 million).

Acquired licences are valued at their purchase price and amortised over the period of the licence.

Pensions

Actuarial assumptions are made in valuing future defined benefit pension obligations as set out in note 35 and are updated periodically. The principal assumptions relate to the rate of inflation and the discount rate. The assumed rate of inflation affects the rate at which salaries grow and therefore the size of the pensions that employees receive on retirement. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that these assumptions will continue in the future. For example, if the discount rate for the UK fund increased by one per cent, the liability would reduce by approximately \$63 million, and vice versa.

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

Share based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models – which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life – and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense. For example, if the volatility assumption was increased by five per cent (or decreased by five per cent), the fair values for options granted under the Sharesave schemes in 2006 would increase by approximately £0.34 (or decrease by £0.32).

Notes to the Accounts continued

56. Recently Issued Accounting Pronouncements

The following pronouncements were issued as at 31 December 2006 but have effective dates for periods beginning after 31 December 2006. The use of IFRSs and certain IFRIC Interpretations that have yet to be endorsed by the European Union is not permitted. Those IFRSs and IFRIC Interpretations listed below that have been endorsed by the European Union,

and whose use is therefore permitted, have not been applied in preparing these financial statements. The full impact of these IFRSs and IFRIC Interpretations is currently being assessed by the Group; none of these pronouncements are expected to result in any material adjustments to the financial statements.

Pronouncement	Description of impact	Latest effective date for the Group
IFRS 7 <i>Financial Instruments: Disclosures</i>	IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and consolidates the current financial instruments disclosures together with additional, more detailed qualitative and quantitative disclosures about risks arising from financial instruments.	1 January 2007
Amendment to IAS 1 <i>Presentation of Financial Statements – Capital Disclosures</i>	This amendment introduces additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and compliance with capital requirements.	1 January 2007
IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>	IFRIC 7 contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency.	1 January 2007
IFRIC 8 <i>Scope of IFRS 2</i>	IFRIC 8 clarifies the scope of IFRS 2 for situations where the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred.	1 January 2007
IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	Following initial recognition, subsequent reassessment of whether an embedded derivative should be separated or not is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.	1 January 2007
IFRIC 10 <i>Interim Financial Reporting and Impairment*</i>	Impairment losses recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost cannot be reversed.	1 January 2007
IFRIC 11 <i>IFRS 2: Group and Treasury Share Transactions*</i>	IFRIC 11 clarifies the treatment in the subsidiary's accounts for share awards made by the parent to the employees of a subsidiary.	1 January 2008**
IFRS 8 <i>Operating Segments*</i>	IFRS 8 supersedes IAS 14 'Segment Reporting' and requires the reporting of operating segments on the same basis as is used internally for evaluating performance.	1 January 2009**

* This IFRS or IFRIC Interpretation has not yet been endorsed by the European Union.

The Group has not yet made a final decision as to whether it will apply in the 2007 financial statements those pronouncements marked (**) in the table above.

57. UK and Hong Kong Accounting Requirements

As required by the HK Listing Rules, an explanation of the differences in accounting practices between IFRS and Hong Kong Financial Reporting Standards is summarised below.

On 1 January 2005, the Group converted from UK GAAP to IFRS adopted for use by the EU. The consolidated financial

statements for the Group for the year ended 31 December 2006, including 2005 comparatives, have been prepared accordingly. There are no material differences in accounting practices between IFRS and Hong Kong Financial Reporting Standards.

Supplementary Financial Information

Average Balance Sheets and Yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2006 and 31 December 2005. For the purpose of the following table, average balances have generally been determined on the basis of daily balances, except for certain

categories, for which balances have been determined less frequently.

The Company does not believe that the information presented in this table would be significantly different had such balances been determined on a daily basis.

	2006			
	Average non interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash and balances at central banks	4,736	959	29	3.0
Gross loans and advances to banks	1,715	23,528	1,177	5.0
Gross loans and advances to customers	308	128,278	9,049	7.1
Impairment provisions against loans and advances to banks and customers	(1,723)	–	–	–
Investment securities	628	58,721	2,732	4.7
Property, plant and equipment and intangible assets	6,610	–	–	–
Prepayments, accrued income and other assets	26,186	–	–	–
Total average assets	38,460	211,486	12,987	6.1

	2005			
	Average non interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash and balances at central banks	4,240	611	8	1.3
Gross loans and advances to banks	560	25,510	852	3.3
Gross loans and advances to customers	754	101,310	6,151	6.1
Impairment provisions against loans and advances to banks and customers	(1,700)	–	–	–
Investment securities	671	43,191	1,739	4.0
Property, plant and equipment and intangible assets	4,990	–	–	–
Prepayments, accrued income and other assets	20,474	–	–	–
Total average assets	29,989	170,662	8,750	5.1

Supplementary Financial Information continued

Average Balance Sheets and Yield continued

	2006			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Non-interest bearing current and demand accounts	13,607	–	–	–
Interest bearing current and demand accounts	–	44,470	982	2.2
Savings deposits	135	8,423	164	1.9
Time and other deposits	632	98,501	4,684	4.8
Debt securities in issue	2,326	24,610	1,186	4.8
Accruals, deferred income and other liabilities	31,238	–	–	–
Subordinated liabilities and other borrowed funds	–	12,711	643	5.1
Minority interests	420	–	–	–
Shareholders' funds	14,369	–	–	–
Total average liabilities and shareholders' funds	62,727	188,715	7,659	4.1
Net yield				2.1
Net interest margin				2.5

	2005			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Non-interest bearing current and demand accounts	12,976	–	–	–
Interest bearing current and demand accounts	–	32,460	516	1.6
Savings deposits	123	7,400	97	1.3
Time and other deposits	859	78,199	2,577	3.3
Debt securities in issue	(109)	22,504	703	3.1
Accruals, deferred income and other liabilities	23,881	–	–	–
Subordinated liabilities and other borrowed funds	–	10,802	522	4.8
Minority interests	227	–	–	–
Shareholders' funds	9,956	–	–	–
Total average liabilities and shareholders' funds	47,913	151,365	4,415	2.9
Net yield				2.2
Net interest margin				2.5

Volume and Price Variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the periods presented. Volume and rate variances have been determined

based on movements in average balances and average exchange rates over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to changes in volume.

	2006 versus 2005		
	Increase/(decrease) in interest due to:		Net increase/ (decrease) in interest
	Volume \$million	Rate \$million	\$million
Interest earning assets			
Cash and unrestricted balances at central banks	11	10	21
Loans and advances to banks	(99)	424	325
Loans and advances to customers	1,893	1,006	2,899
Investment securities	724	268	992
Total interest earning assets	2,529	1,708	4,237
Interest bearing liabilities			
Subordinated liabilities and other borrowed funds	92	28	120
Interest bearing current and demand accounts	288	125	413
Savings deposits	20	47	67
Time and other deposits	843	1,318	2,161
Debt securities in issue	101	382	483
Total interest bearing liabilities	1,344	1,900	3,244

	2005 versus 2004		Net increase/ (decrease) in interest \$million
	Increase/(decrease) in interest due to:		
	Volume \$million	Rate \$million	
Interest earning assets			
Cash and unrestricted balances at central banks	5	–	5
Treasury bills and other eligible bills	232	(17)	215
Loans and advances to banks	221	140	361
Loans and advances to customers	2,078	510	2,588
Investment securities	47	222	269
Total interest earning assets	2,583	855	3,438
Interest bearing liabilities			
Subordinated liabilities and other borrowed funds	231	(72)	159
Interest bearing current and demand accounts	100	225	325
Savings deposits	24	5	29
Time and other deposits	686	562	1,248
Debt securities in issue	350	174	524
Total interest bearing liabilities	1,391	894	2,285

Supplementary Financial Information continued

Continuing Connected Transactions

As noted in the Directors' Report on page 54 the Group is required to include in this Annual Report information regarding certain transactions with Temasek.

During the period from 20 July 2006 to 31 December 2006, members of the Group have entered into the following non-exempt continuing connected transactions (as defined by

reference to the HK Listing Rules) with Temasek or its associates in the ordinary and usual course of its business and on normal commercial terms (and with reference to prevailing market rates as applicable) or in accordance with the practice commonly adopted in the market (where applicable). Additional details are provided on page 54 of the Report of the Directors.

Transaction Category	Notes	20 July 2006 – 31 December 2006*			
		Aggregate notional value/ principal amounts during the period \$million	Notional value of outstanding transactions or principal amounts as at 31 December 2006 \$million	Total number of transactions during the period	Total number of Temasek associates with whom transactions were entered
Foreign exchange	i	15,916	1,119	2,650	44
Derivatives	ii	8,827	2,555	755	16
Capital markets dealing	iii	709	–	125	13
Financial assistance by non-banking licensed subsidiaries	iv	14	14	1	1

Transaction Category	Notes	20 July 2006 – 31 December 2006*	
		Gross fee revenue to the Group \$million	Total number of Temasek associates with whom transactions were entered
Securities services	v	1.8	13
Cash management services	vi	1.2	93
Trade services	vii	0.5	19
Advisory and arranging services	viii	0.2	2

* This data reflects transactions with Temasek or its associates (as defined by the HK Listing Rules) which the Group was able to identify within the extensive Temasek group of companies as at 15 December 2006.

- i Foreign Exchange includes spot, forward and foreign exchange swap transactions.
- ii Derivatives includes over-the-counter derivatives (including swaps, forwards, options and combinations thereof) on currencies, interest rates, commodities, credit risk, bonds, equities and any other classes of underlying prices, rates, indices or instruments.
- iii Capital Markets Dealing includes sales, purchases and participations of securities, loans and other financial instruments.
- iv Financial Assistance by non-banking subsidiaries includes the granting of credit, lending money, providing security for or guaranteeing a loan and transactions of a similar nature or directly related to the same, by members of the Group which are not licensed as banking companies which would otherwise have allowed them to benefit from the exemption for such transactions as is available to licensed banking companies under the Hong Kong Listing Rules.
- v Securities Services includes custody, escrow agency, receiving bank, trustee, transfer agency, paying agency and funds administration services, derivatives clearing services and facilities for custody clients to lend their securities.
- vi Cash Management Services includes account services (payments and collections), liquidity management services and clearing services.
- vii Trade Services includes trade services not involving credit exposure, such as export bills collection, advising of letters of credit, document preparation, processing and checking services and safekeeping of documents.
- viii Advisory and Arranging Services includes corporate finance advisory services, arranging and advising on loans from third party lenders and public and private placements of securities (where the Group does not participate as lender, underwriter or subscriber).

Five Year Summary

	2006 \$million	2005 \$million	*2004 \$million	**2003 \$million	**2002 \$million
Operating profit before impairment losses and taxation	3,824	3,050	2,533	2,097	1,982
Impairment losses on loans and advances and other credit risk provisions	(629)	(319)	(214)	(536)	(712)
Other impairment	(15)	(50)	(68)	(11)	(8)
Profit before taxation	3,178	2,681	2,251	1,550	1,262
Profit attributable to shareholders	2,278	1,946	1,578	1,024	844
Loans and advances to banks	19,724	21,701	16,687	13,354	16,001
Loans and advances to customers	139,330	111,791	72,019	59,744	57,009
Total assets	266,047	215,096	147,124	120,202	112,953
Deposits by banks	26,233	18,834	15,162	10,924	10,850
Customer accounts	147,382	119,931	85,093	73,767	71,626
Shareholders' equity	16,853	11,882	9,105	7,529	7,270
Total capital resources ¹	30,096	22,682	16,837	14,110	12,974
Information per ordinary share					
Basic earnings per share	169.0c	148.5c	129.6c	82.0c	57.6c
Normalised earning per share ²	170.7c	153.7c	124.6c	90.1c	74.9c
Dividends per share	71.04c	64.0c	57.5c	52.0c	47.0c
Net asset value per share	1,208.5c	897.3c	719.0c	588.0c	569.8c
Ratios					
Post-tax return on ordinary shareholders' equity-normalised basis ²	16.9%	18.0%	18.6%	15.7%	13.4%
Basic cost-income ratio	55.6%	55.5%	52.9%	55.8%	56.3%
Cost-income ratio – normalised basis ²	55.2%	54.5%	54.0%	53.6%	53.6%
Capital ratios:					
Tier 1 capital	8.4%	7.7%	8.6%	8.6%	8.3%
Total capital	14.3%	13.6%	15.0%	14.5%	14.2%

¹ Shareholders' funds, minority interests and subordinated loan capital.

² Results on a normalised basis reflect the Group's results, excluding profits and losses of a capital nature, charges for restructuring and profits and losses on repurchase of share capital.

* IFRS (excluding IAS 32 and 39).

** UK GAAP.

Shareholder Information

Dividend and Interest Payment Dates

Ordinary shares	Final dividend	Interim dividend (provisional only)
Results and dividend announced	27 February 2007	7 August 2007
Ex dividend date	7 March 2007	15 August 2007
Record date for dividend	9 March 2007	17 August 2007
Last date to elect for share dividend or to change standing instructions	20 April 2007	24 September 2007
Dividend payment date	11 May 2007	10 October 2007

Preference shares	1st half yearly dividend	2nd half yearly dividend
7 ³ / ₈ per cent Non-Cumulative Irredeemable preference shares of £1 each	1 April 2007	1 October 2007
8 ¹ / ₄ per cent Non-Cumulative Irredeemable preference shares of £1 each	1 April 2007	1 October 2007
6.409 per cent Non-Cumulative preference shares of \$5 each: first semi-annual dividend to be paid on 30 July 2007.		

Annual General Meeting

The Annual General Meeting will be held at 12 noon (UK time) (7.00 pm Hong Kong time) on Thursday 3 May 2007 at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU. Details of the business to be transacted at the AGM are included in the accompanying Notice of AGM.

Details of voting at the Company's AGMs and of proxy votes cast can be found on our website: www.standardchartered.com

Interim Results

The interim results will be announced to the London Stock Exchange, the Stock Exchange of Hong Kong and put on our website: www.standardchartered.com

ShareCare

ShareCare is available to shareholders on the United Kingdom register who have a United Kingdom address and bank account, and allows you to hold your Standard Chartered shares in a nominee account. Your shares can be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and you will still receive your dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information please contact the shareholder helpline on 0870 702 0138.

Previous Dividend Payments

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 1998	16 October 1998	6.25p	587.2p
Final 1998	28 May 1999	14.50p	889.5p
Interim 1999	15 October 1999	6.75p	860.8p
Final 1999	26 May 2000	16.10p	797.9p
Interim 2000	13 October 2000	7.425p	974.3p
Final 2000	25 May 2001	17.71p	No offer
Interim 2001	12 October 2001	12.82¢/8.6856p	No offer
Final 2001	17 May 2002	29.10¢/19.91p	£8.43/\$12.32
Interim 2002	15 October 2002	14.10¢/9.023p	£6.537/\$10.215
Final 2002	13 May 2003	32.9¢/20.692p/HK\$2.566	£6.884/\$10.946
Interim 2003	10 October 2003	15.51¢/9.3625p/HK\$1.205	£8.597/\$14.242
Final 2003	14 May 2004	36.49¢/20.5277p/HK\$2.8448	£8.905/\$15.830
Interim 2004	8 October 2004	17.06¢/9.4851p/HK\$1.3303	£9.546/\$17.16958
Final 2004	13 May 2005	40.44¢/21.145p/HK\$3.15156	£9.384/\$17.947
Interim 2005	14 October 2005	18.94¢/10.7437p/HK\$1.46911	£11.878/\$21.3578
Final 2005	12 May 2006	45.06¢/24.9055p/HK\$3.49343	£14.2760/\$24.77885
Interim 2006	11 October 2006	20.83¢/11.14409p/HK\$1.622699	£13.2360/\$25.03589

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please contact our registrar for a mandate form.

Registrars and Shareholder Enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the United Kingdom register, please contact our registrar Computershare Investor Services PLC, at PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH. There is a shareholder helpline on 0870 702 0138. If you hold your shares on the Hong Kong branch register please contact Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. You can check your shareholding at: www.computershare.com

Chinese Translation

If you would like a Chinese version of this Report and Accounts please contact:

Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

年報之中文譯本可向香港中央證券登記有限公司索取，地址：香港皇后大道東183號合和中心18樓1806-1807室。

Shareholders on the Hong Kong branch register who have asked to receive the Report and Accounts in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Report and Accounts, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the United Kingdom, Hong Kong or the United States will be sent to you with your dividend documents.

Electronic Communications

If you hold your shares on the United Kingdom register and in future you would like to receive the Report and Accounts electronically rather than by post, please register online at: www.standardchartered.com/investors. Then click on Update Shareholder Details and follow the instructions. You will need to have your Shareholder or ShareCare Reference number when you log on. You can find this on your share certificate or ShareCare statement.

Forward looking statements

It is possible that this document could or may contain forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

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Afghanistan	1
Argentina	1
Australia	1
Bahamas	1
Bahrain	5
Bangladesh	25
Botswana	11
Brazil	1
Brunei	7
Cambodia	1
Cameroon	2
China	22
Colombia	1
Falkland Islands	1
The Gambia	5
Ghana	19
Hong Kong SAR	70
India	81
Indonesia	301
Iran	2
Ivory Coast	4
Japan	2
Jersey	1
Jordan	8
Kenya	28
Laos	1
Lebanon	5
Macau SAR	1
Malaysia	36
Mauritius	1
Mexico	1
Nepal	14
Nigeria	6
Oman	1
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Major Awards in 2006

Banking Awards



The Banker Awards 2006

Global Bank of the Year
Bank of the Year Africa
Bank of the Year Asia Pacific
Bank of the Year Afghanistan
Bank of the Year Botswana
Bank of the Year Cote D'Ivoire
Bank of the Year Gambia
Bank of the Year Kenya
Bank of the Year Sierra Leone

Wholesale Banking Awards



The Asset Triple A Asian Awards 2006

Best Loan House
Best Asian Currency Bond House
Best Securitisation House
Best Project Finance Advisory House
Best Debt House in Thailand
Best Structured Trade Finance Bank
Best Cash Management Bank for South Asia
Best Sub-Custodian in Thailand
Best Syndicated Loan – Reliance Petroleum, \$2 billion Greenfield Refinery Financing
Best Project Finance Loan – Reliance Petroleum, \$2 billion Greenfield Refinery Financing
Best Cross-border Securitisation – SCFB/Korea First Mortgage
Best Deal in Taiwan – Polaris NTD12.225 billion Collateralised Bond Obligation



IFR Asia Awards 2006

Hong Kong Loan House
Singapore Loan House
China Bond Deal – China Construction Bank RMB3 billion Residential Mortgage Backed Securitisation
Syndicated Loan – Reliance Petroleum, \$2 billion Greenfield Refinery Financing



ISR Awards 2006

Deal of the Year for Asia – Korea First Mortgage, €1 billion Cross-Border RMBS



FinanceAsia Achievement Award 2006

Best Foreign Bank in Korea (Commendation) – SC First Bank
Best Project Finance Deal – Reliance Petroleum, \$2 billion Greenfield Refinery Financing
Best Securitisation – START III \$1.5 billion Synthetic Collateralised Loan Obligation
Best Structured Product – START III \$1.5 billion Synthetic Collateralised Loan Obligation
Best Taiwan Deal – Standard Chartered's \$1.2 billion acquisition of Hsinchu Bank



Euromoney Awards for Excellence 2006

Best Debt House in Thailand
Best at Project Finance in Asia
Best at Project Finance in Africa
Best Bank in Africa
Best Bank in Tanzania, Botswana and Zimbabwe



Euromoney Project Finance Deals of the Year 2006

Africa Oil & Gas Deal of the Year – Sonangol Sinopec International \$1.4 billion Project Financing
Middle East IWPP Deal of the Year – Al Hidd Independent Water and Power Project, \$1.2 billion, Debt Financing
African Mining Deal of the Year – Lumwana Copper Project, \$584 million, Project Financing
Middle East Petrochemical Deal of the Year – Yanbu National Petrochemical Co., \$1.73 billion, Project Financing
Asia Pacific Transport/Rail Deal of the Year – Uijeongbu Light Rail Transportation Project, €132 million & KRW169 billion Project Financing
Asia Pacific Oil & Gas Deal of the Year – Reliance Petroleum Limited \$2 billion Greenfield Refinery Financing
Asia Pacific Petrochemicals Deal of the Year – Tangguh LNG (Indonesia), \$1.065 billion, Commercial Bank Financing



Global Finance Awards 2006

Best Bank in Botswana
Best Bank in Zambia
Best Interest Rate Derivatives Provider in Asia
Best Bank for Liquidity Management Africa



Trade Finance Awards for Excellence 2006

Best Trade Finance Bank in Sub-Saharan Africa



AsiaRisk Award 2006

Deal of the Year – START II \$1.6 billion Synthetic Collateralised Loan Obligation



Asiamoney Deals of the Year 2006

Best Securitisation Deal of the Year – Korea First Mortgage, €1 billion Cross-Border RMBS
Best Project Finance Deal – Reliance Petroleum, \$2 billion Greenfield Refinery Financing



Air Finance Journal 2006

Middle East Deal of the Year – Emirates Airline, S\$400 million, Fixed & Floating Rate Notes

Consumer Banking Awards



Retail Banker International Awards 2006

Best Retail Bank in Asia Pacific



The Hong Kong Institute of Bankers

Grand Award of Outstanding Financial Planner Award



The Customer Service Excellence Award 2006

Individual Silver Award Winner of Counter Service
Team Bronze Award of Field and Special Service



The Customer Relationship Excellence Awards 2005-2006

Customer Service Professional of the Year (Service Center)
Customer Service Professional of the Year (Contact Center)

Corporate Responsibility and other Awards



The Banker Award 2006

Bank of the Year Global CSR



The Hong Kong Council of Social Service

Total Caring Company 2006



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The funds raised through the programme will go towards operations, medical equipment, education, training and awareness.

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