HIGHLIGHTS

STANDARD CHARTERED PLC RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Reported Results

- Operating income up 28 per cent to $11,067 million (2006: $8,620 million)
- Profit before taxation up 27 per cent to $4,035 million (2006: $3,178 million)
- Profit attributable to ordinary shareholders* up 25 per cent to $2,813 million (2006: $2,253 million)
- Total assets up 24 per cent to $329 billion (2006: $266 billion)

Performance Metrics**

- Normalised earnings per share up 15.8 per cent at 197.6 cents (2006: 170.7 cents)
- Normalised return on ordinary shareholders' equity of 15.6 per cent (2006: 16.9 per cent)
- Annual dividend per share increased 11.7 per cent to 79.35 cents from 71.04 cents in 2006
- Normalised cost income ratio of 56.0 per cent (2006: 55.2 per cent)
- Total capital ratio at 16.7 per cent (2006: 14.2 per cent)

Significant achievements

- Record profit before taxation at $4,035 million
- Strong engines of growth in both Wholesale Banking and Consumer Banking
- Broad based income growth across Wholesale Banking
- Good income growth in Consumer Banking particularly in Wealth Management and SME
- Launched the Standard Chartered Private Bank in 11 locations across seven markets
- Over $2 billion of income and $1 billion profit before taxation in Hong Kong
- Incorporated our business in China
- Operating income in India exceeds $1 billion for the first time

Commenting on these results, the Chairman of Standard Chartered PLC, Mervyn Davies, said:

"Standard Chartered has shown how its position in the world's growth markets and the strength of its balance sheet can deliver record results during turbulent times. We are not complacent about the future but are confident that we will deliver another strong performance in 2008."

* Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 8 on page 48).

** Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the "Group") excluding items presented in note 9 on page 49.

Standard Chartered PLC - Stock Code: 2888

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Unless another currency is specified, the word "dollar" or symbol "$" in this document means United States dollar and the word "cent" or symbol "c" means one-hundredth of one United States dollar.

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

STANDARD CHARTERED PLC - SUMMARY OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 $million	2006 $million
RESULTS		
Operating income	**11,067**	8,620
Impairment losses on loans and advances and other credit risk provisions	**(761)**	(629)
Profit before taxation	**4,035**	3,178
Profit attributable to equity interests	**2,841**	2,278
Profit attributable to ordinary shareholders	**2,813**	2,253
BALANCE SHEET		
Total assets	**329,205**	*266,102
Total equity	**21,452**	*17,395
Capital base	**28,727**	*21,825
INFORMATION PER ORDINARY SHARE	**Cents**	Cents
Earnings per share – normalised basis**	**197.6**	170.7
– basic	**201.1**	169.0
Dividend per share	**79.35**	71.04
Net asset value per share	**1,374.2**	1,208.9
RATIOS	**%**	%
Return on ordinary shareholders' equity – normalised basis**	**15.6**	16.9
Cost income ratio – normalised basis**	**56.0**	55.2
Capital ratios:		
Tier 1 capital	**9.8**	*8.3
Total capital	**16.7**	*14.2

* Amounts have been restated as explained in note 33 on page 65.

** Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the "Group") excluding items presented in note 9 on page 49.

STANDARD CHARTERED PLC - CHAIRMAN'S STATEMENT

Final results

I am delighted to report that Standard Chartered has delivered another year of record income and profits in 2007, showing the results of our investment programme over the last few years in our key growth markets of Asia, Africa and the Middle East.

- Profit before taxation rose 27 per cent to $4,035 million
- Income increased 28 per cent to $11,067 million
- Normalised earnings per share climbed 15.8 per cent to 197.6 cents

The board is recommending an annual dividend of 79.35 cents per share.

These outstanding results are a reminder of Standard Chartered's transformation over the last few years and its enormous potential. Peter Sands and his team have done a great job in delivering these numbers against a backdrop of turmoil and dislocation in the global financial markets.

These are extraordinary times to be chairman and it has been a very unusual time for the banking and financial services industry. Unprecedented losses; huge volatility; the recapitalisation of major banks. No international securities firm, investment company, insurance company or bank – ourselves included – has been unscathed.

My reflections are that the industry as a whole has learnt: firstly, the overwhelming importance of liquidity; secondly, the need to price properly for risk; and, thirdly, the danger of over-complexity.

I am often asked for my views on what this turbulence will mean for our markets in Asia, Africa and the Middle East and the degree to which they have decoupled from western markets.

The global economy

What is clear is that the US economy is now facing a period of weaker growth. While there is some evidence of decoupling across our markets, a US slowdown will impact the rest of the world, dampen global growth, slow the pace of trade and will take the heat out of commodity markets.

If we look back at the last US slowdown in 2001, the export-oriented economies of Asia such as Hong Kong, Singapore and Malaysia were significantly impacted. Although growth rates in Asia will also slow this time, the region now enjoys a degree of insulation and resilience due to stronger domestic demand, economic resurgence in China, growing trade links within Asia and strong policy response from government and central banks.

It is easy to focus on China as the growth engine but we should not underestimate the diversification of the ASEAN economies, the catch-up potential of India, huge wealth creation in the Middle East and the infrastructure boom across the regions. The emergence of sovereign wealth funds in Asia and the Middle East is emblematic of the shift in wealth that is underway.

So while we forecast GDP growth rates will soften slightly in these markets in 2008, these economies will remain robust and their growth will be significantly higher than that expected in the US and Euro zone.

The Group today is extraordinarily well positioned to seize these new realities thanks to its growing geographic reach and scale and the breadth of its products and capabilities developed in recent years.

We have a loyal and supportive shareholder base and, in my view, exceptional management. In May, we welcomed John Peace to the board as deputy chairman and senior independent director, and Sunil Bharti Mittal as an independent non-executive director. We also welcomed Gareth Bullock to the board as group executive director in August.

In September, Kai Nargolwala stepped down from the board after eight years. We would like to thank him for his significant contribution to the Group's success.

We are also very grateful to Sir CK Chow, who will retire from the board this year after 10 years of dedicated service as a non-executive director.

In my last report to you I was cautious about the outlook, but I did not anticipate such extremes as we have seen since then. In the past six months we have witnessed big upheavals in our sector.

At Standard Chartered we know that complacency kills. We are operating in a period of sustained uncertainty. We have learnt lessons in recent months and we are constantly reminded of the importance of preserving our liquidity and capital strength.

Summary

Banking remains a risk-based industry and we will remain prudent in our management and pricing of risk. We are well placed to take advantage of the opportunities that will undoubtedly arise.

Standard Chartered has shown how its position in the world's growth markets and the strength of its balance sheet can deliver record results during turbulent times. We are not complacent about the future but are confident that we will deliver another strong performance in 2008.

Mervyn Davies, CBE
Chairman
26 February 2008

2007 was my first full year as Chief Executive of Standard Chartered and I am delighted by our achievements. Despite the turbulence, financial shocks and uncertainties in the financial services industry, we have again delivered record profits.

We have invested in both our businesses at record levels and stepped up the pace of organic growth: underlying income growth reached 23 per cent. We have also announced six acquisitions since our last set of results.

We have not been unscathed by the financial crisis nor do we expect to be immune as it continues to unfold. But our disciplined approach to running the Group, focusing on our strategic priorities has stood us in good stead, and will continue to do so.

We start 2008 confident but not complacent. The Group is in great shape and both businesses have begun the year well. It will be a testing year but it will also be exciting, with new opportunities emerging alongside new challenges.

Our performance in 2007 was underpinned by firm foundations in the way we manage our liquidity, capital, risk profile and costs.

Firm foundations

We are a bank with strong liquidity, a well-diversified retail funding base, and a conservative balance sheet. We have a healthy A/D ratio - the ratio of customer loans to customer deposits - at 86 per cent and 24 per cent of our assets are highly liquid.

Many years of managing in highly volatile markets mean we have always taken a proactive approach to managing our liquidity.

We are very well capitalised. The Group's capital ratios are well above our target ranges, reflecting deliberate and effective management of the capital base. In September 2007 we raised $2 billion in Tier 2 capital which, despite stressed market conditions, was more than five times oversubscribed.

We are very disciplined in the risks we take. We have no direct exposure and very limited indirect exposure to US sub-prime assets. Our entire exposure to asset backed securities ("ABS"), including collateralised debt obligations ("CDO"), is under $6 billion.

We have faced challenges and taken some writedowns as a result of the financial turmoil. On Whistlejacket, the structured investment vehicle, and on our asset securitisation portfolio the profit and loss account impact was $300 million in total. On the other hand, we've had an outstanding performance on the corporate loan portfolio and kept a tight grip on consumer credit.

We have also had to take some very difficult decisions – such as on Whistlejacket. We worked very hard since August to find a viable way forward for Whistlejacket and are disappointed that we were ultimately unable to do so.

Overall, I am confident that our strategy for balancing risk and return and the systems and processes that underpin this are working well. We also take a very disciplined approach towards the management of our cost base. We continue to drive for greater efficiency in everything we do and manage our investment programme on a dynamic basis.

We are not going to stop investing for growth. The opportunities in our markets are hugely exciting and now is the time to seize them. But, as always, we will be prepared to pace and scale this investment, taking account of changes in our markets and in our own performance.

Challenges ahead

These firm foundations will prove critical to our continued success as we face the challenges ahead. The turmoil in financial markets is far from over.

We anticipate strains in the global economy, with the slowdown in the US having at least some effect on our markets in Asia, Africa and the Middle East. How profound that effect will be, we do not know.

We also see a range of political risks in our markets. Yet as a bank that has grown up in emerging markets over more than 150 years, we have plenty of experience in dealing with such issues.

Alongside these external challenges, we also face one major internal challenge: that of managing extremely rapid growth. This is about attracting and developing exceptional talent, ensuring our culture and values remain robust, ensuring our control systems and infrastructure keep pace with the business.

Emerging opportunities

Alongside these challenges, new opportunities are emerging. We are hiring excellent talent from our competitors, attracted by our strength, brand and growth potential. We are seeing a flight to quality, with a good inflow of deposits. We are seeing better pricing and differentiation of risk: the return of more rational pricing for risk is undoubtedly good for us and for the industry.

And we're seeing opportunities to deepen our relationships with our customers.

At times like these, it is critically important to be clear on our strategy and priorities. Standard Chartered has a clear and consistent strategy, well understood by staff, customers and investors. In 2003 we said we wanted to be the world's best international bank, leading the way in Asia, Africa and the Middle East. That is still our aspiration and we are making good progress on that journey.

Organic growth

Our near-term priorities remain consistent. Last year the first item on our management agenda was "Accelerating organic growth". We achieved that with an increase of underlying income growth from 18 per cent to 23 per cent.

Our biggest single business, Consumer Banking in Hong Kong, delivered a 22 per cent increase in profits and a 17 per cent increase in income. This is the first time in six years that this business has achieved double-digit income growth.

This performance was driven by strong growth in wealth management, with income up 25 per cent, and in our small and medium enterprise ("SME") business up 36 per cent. We have opened two dedicated SME banking centres and now have nearly 40,000 SME customers.

Our investment in Consumer Banking in Hong Kong during 2007 has produced immediate results and we will continue to invest in this business.

Wholesale Banking in Hong Kong also had an outstanding year, with profits up 50 per cent on income up 46 per cent. In fact Hong Kong as a whole, with profits up 34 per cent to just under $1.2 billion, made more than the entire Group did in 2001.

The individual business that contributed the biggest change in profits was Wholesale Banking in India, where profits increased by 91 per cent to $626 million, on an 82 per cent increase in income. India is Wholesale Banking's largest business, this is a superb franchise. We have added more than 1,000 clients over the last three years and have more than 100 clients generating income of more than $1 million.

We are investing in front-line staff, in new products and in infrastructure, seizing the opportunities emerging from India's rapid economic growth and the dynamism of its corporate sector.

With 83 branches across the country, Standard Chartered has the largest network of branches among foreign banks in India. Including our global shared service centre in Chennai, which provides operational and technology support to our businesses across the world, we employ 18,000 people in India, making it by far our largest operation anywhere.

Overall, including Consumer Banking, India broke through $1 billion in income for the first time in 2007, growing 60 per cent to $1.3 billion, with profits up 71 per cent to $690 million. India generated more profit in 2007 than in 2006 and 2005 together.

It is not only our biggest businesses and markets that saw accelerated growth in 2007.

We are also seeing the benefits from investments we have made to build new engines of growth.

In China, income was up 73 per cent to $498 million. About three quarters of income was generated by the Wholesale Banking business. We have been investing significantly to build a business of scale and breadth.

In 2007 we have more than doubled the number of permanent staff from 2,100 to over 4,300 and our local network has expanded from 21 to 38 locations. Despite investing over $60 million in the Consumer Banking business, profits from China increased by 72 per cent in 2007 and are now in excess of $180 million.

Nigeria is another example. It is a country with around six per cent GDP growth, 140 million people and a rapidly growing middle class. Over the past three years we have invested in building a full range of products in both Consumer and Wholesale Banking.

In 2007 we doubled the number of branches to 12 and now employ about 350 people. As a result of this investment, our income in Nigeria increased by over 62 per cent to over $140 million and profits increased by 87 per cent. In 2008, subject to approval, we plan to double again the size of our branch network in Nigeria.

Another new engine of organic growth is The Standard Chartered Private Bank. Launched just nine months ago, The Private Bank is making excellent progress. With 11 offices across seven markets and 118 relationship managers, the Private Bank has $10 billion of assets under management (“AUM”), of which 28 per cent is from 1,300 clients who are entirely new to Standard Chartered.

Whilst it is still early days, we are already seeing that our unique combination of local heritage and international capability, our ability to offer a broad range of onshore and offshore wealth products and our distinctive brand, are proving enormously appealing to our customers.

The acquisition of American Express Bank, announced in September, will turbo charge the growth of our private banking business, adding over $22 billion in AUM, new booking centres, investment products and capabilities and another 120 experienced relationship managers.

Korea, Pakistan and Taiwan

In 2008 delivering on our acquisitions will remain a top priority. 2007 was undoubtedly a challenging year for our business in Korea. Whilst reported performance was adversely affected by a number of one-off items, we are still not satisfied with our performance, even after adjusting for these effects.

I have changed the management team in Korea and we are now executing a range of strategic initiatives to reshape the business – to accelerate income growth, to improve productivity and to enhance return on capital.

We are confident that SC First Bank is fundamentally a great business, a large growth platform in a very big, growing economy; it will be a powerful engine of sustained profit growth for the Group.

In Pakistan we have made rapid progress with the integration of Union Bank. Today we are the sixth largest bank in the country in terms of profits with over 170 branches in 39 cities. However, the political environment has had a negative impact, particularly on loan impairment and we enter 2008 with a somewhat cautious stance.

In Taiwan, we have made good progress since amalgamating the businesses in June. We are on course to meet our target of delivering double-digit return on investment and earnings per share accretion in 2008.

Capability acquisitions

While our acquisitions in Korea, Pakistan and Taiwan were primarily about achieving critical mass and distribution in key geographies, the rationale for the acquisition of American Express Bank was to reinforce our capabilities and scale in two key businesses across the world: private banking and financial institutions. I have already outlined the benefits to private banking.

In financial institutions, American Express Bank will double the size of our US Dollar clearing business, and give us direct Yen and Euro clearing capability, as well as a sophisticated sales and service model. American Express Bank will also extend our reach into a number of new countries. Following completion of the transaction, Standard Chartered will be represented in over 70 markets.

We expect to complete this transaction shortly and look forward to welcoming American Express Bank's 2,800 staff into Standard Chartered. Our detailed planning for the integration is going very well and has confirmed our initial view of both the scale and cost of the integration task, as well as the magnitude of the synergies.

This is a highly complex integration, spanning 47 countries and involving the integration of high volume transaction systems, but the prize is also very significant. We anticipate that 2008 integration costs are likely to be around $150 million, so the acquisition is likely to be slightly dilutive this year, net of underlying earnings and early synergies.

We remain confident that American Express Bank will increase earnings per share in 2009 and will deliver a double-digit return on investment. This is a great deal, strategically compelling and financially attractive. We are bringing on board some highly talented international bankers and there is a strong cultural fit.

In the second half of 2007 we announced four other capability driven acquisitions, all much smaller than American Express Bank:

- Pembroke, a specialist in aviation finance, which will reinforce our ability to play a part in the rapid growth of aviation across our markets
- Harrison Lovegrove, an oil and gas advisory boutique, which adds to our existing strengths in the energy business
- A Brain, a securities services company in Korea, which brings new capabilities and customers to our securities services business
- And UTI Securities, an equity brokerage and advisory firm in India, which will enable us to provide a broader range of wealth management products to our retail and private banking clients.

In January 2008 we also announced the acquisition of Yeahreum, a mutual savings bank in South Korea, which will enable us to broaden the current product offering.

The logic behind all these capability-driven acquisitions is to extend and deepen our product range and expertise, enabling us to serve our clients more effectively across a broader range of needs. They add fuel to our organic growth.

Sustainability

Building a sustainable business is an integral part of our long-term strategy to enhance shareholder value. At Standard Chartered, we are determined to lead by example within the markets in which we operate. As well as finding ways to drive economic growth, we also want to help protect the environment and to have a positive impact on the societies where we live and work.

We are constantly challenging ourselves on how we can contribute in a distinctive way in the countries where we operate. For example, at the Clinton Global Initiative in September, Standard Chartered committed $8-10 billion of financing over the next five years in renewable and clean energy projects in Asia, Africa and the Middle East. By making our commitment public, we hope to be a catalyst for change, influencing businesses to invest in the transition to a low-carbon and more sustainable future.

The year ahead

In the year ahead we will stick to our strategy. We will continue to focus on deepening our relationships with our clients. And we will continue to be proactive and disciplined in managing our liquidity, our capital, our risk profile and our costs.

We will keep investing to sustain our organic growth momentum. In China, for example, subject to regulatory approval, we anticipate having at least 60 locations by the end of this year. This year we celebrate 150 years of being in China and India: we have deep roots in these markets and they're a huge part of our future.

We will deliver on our acquisitions: make progress in Korea; deliver earnings per share growth from Taiwan; and complete the American Express Bank transaction and drive its integration.

Outlook

We ended 2007 with strong momentum in both businesses and the Group has had an excellent start to 2008, particularly in Wholesale Banking which had a record January. The Bank is in great shape. The foundations are firm. We are extraordinarily well-placed to capture the huge opportunities in our markets. There is more breadth and scale in the Group and our strong performance in 2007 is well spread across multiple products and multiple geographies.

The level of risk and uncertainty in the external environment makes the horizon more difficult to read. However, we know what our shareholders expect us to deliver: double-digit income growth, double-digit earnings growth and mid to high teens return on equity ("ROE"). Over the last few years we have been building a track record of consistent delivery, of superior financial performance. We are committed to keep building on that track record.

We will not stop investing given the opportunities we are seeing in our markets. But we will remain vigilant in our management of risk, and we will continue to flex the pace of investment to ensure costs grow broadly in line with income growth.

2007 was a year of strong performance, a year of delivery despite the external turmoil. We enter 2008 amid almost unprecedented market volatility and uncertainty, but in great shape, with great momentum.

Summary

2007 was a great year for the Group. We were not unscathed by the financial crisis, but we delivered record results. I thank all our customers and shareholders for their support and the Group's staff for playing their part in our growth story in 2007. Standard Chartered has never been in better shape.

Peter Sands
Group Chief Executive
26 February 2008

Group Summary

The Group has delivered another strong performance for the year ended 31 December 2007. Profit before taxation rose 27 per cent to $4,035 million, with operating income increasing 28 per cent.

Normalised cost income ratio was 56.0 per cent compared to 55.2 per cent in 2006. Normalised earnings per share increased by 15.8 per cent to 197.6 cents. Further details of basic and diluted earnings per share are provided in note 9 on page 49.

The Group made a number of acquisitions in 2006 and 2007. It has owned Union Bank Limited ("Union") since 5 September 2006 and Hsinchu International Bank ("Hsinchu") since 19 October 2006.

On 30 December 2006, the assets and business of Union and the Standard Chartered Bank branches in Pakistan were amalgamated into Standard Chartered Bank (Pakistan) Limited.

On 30 June 2007, the assets and business of the Standard Chartered Bank branch in Taiwan were amalgamated into Hsinchu, and the combined entity was renamed Standard Chartered Bank (Taiwan) Limited.

On 5 September 2006, the Group acquired an additional stake of 12.96 per cent in PT Bank Permata Tbk ("Permata"). The Group completed the acquisitions of Pembroke Group Limited ("Pembroke"), Harrison Lovegrove & Co. Limited ("Harrison Lovegrove") and A Brain Co. Limited ("A Brain") on 5 October 2007, 3 December 2007 and 5 December 2007 respectively.

The underlying results of the Group exclude the results of the following:

Standard Chartered Bank (Pakistan) Limited, comprising the Standard Chartered Bank branches in Pakistan and Union; Hsinchu; the incremental stake in Permata; A Brain; Pembroke; and Harrison Lovegrove.

Operating Income and Profit

	2007 $million	2006 $million	**Increase %**
Net interest income	**6,265**	5,328	18
Fees and commissions income, net	**2,661**	1,881	41
Net trading income	**1,261**	920	37
Other operating income	**880**	491	79
	4,802	3,292	46
Operating income	**11,067**	8,620	28
Operating expenses	**(6,215)**	(4,796)	30
Operating profit before impairment losses and taxation	**4,852**	3,824	27
Impairment losses on loans and advances and other credit risk provisions	**(761)**	(629)	21
Other impairment	**(57)**	(15)	280
Profit/(loss) from associates	**1**	(2)	N/A
Profit before taxation	**4,035**	3,178	27

See page 13 for analysis of the underlying results.

The external environment remained generally favourable in the Group's key markets despite difficulties experienced in the financial markets in the second half of the year.

Operating income grew $2,447 million, or 28 per cent, to $11,067 million. On an underlying basis, operating income grew 23 per cent.

Wholesale Banking had an excellent year, with very strong income growth across all client segments and product categories. In Consumer Banking, strong income growth was achieved in Wealth Management and the SME segment.

The key markets of the Group continued to perform very well, with over 20 per cent income growth achieved in Hong Kong, Singapore and the MESA region. In Hong Kong, operating income exceeded $2 billion and operating profit exceeded $1 billion for the first time. In India and China, operating income grew 60 per cent to $1,308 million and 73 per cent to $498 million, respectively. However, operating conditions remained challenging in Korea, and in the UK, income was adversely impacted by the market turmoil in the second half of the year.

Net interest income was up $937 million, or 18 per cent, to $6,265 million. The increase in net interest income was predominantly from higher average balances and increased volumes from transaction banking and cash management services, together with the growth in current and savings accounts balances across the geographies. Net interest income from trade and lending revenues also grew, particularly in the MESA region. Underlying net interest income grew 12 per cent. Net interest margin was 2.5 per cent, in line with last year.

Non-interest income grew $1,510 million, or 46 per cent, to $4,802 million, with underlying growth of 41 per cent.

Net fees and commissions income increased by $780 million, or 41 per cent, to $2,661 million. On an underlying basis, net fees and commissions income grew 35 per cent. Robust economic growth in the Group's key markets, underpinned by good economic fundamentals and firmer domestic demand drove stock markets higher. Strong investor sentiment resulted in increased demand for investment products and services. As a consequence, sales of wealth management products such as unit trusts, insurance and structured investment products increased significantly. Custody and securities services benefited from higher volumes in the regional equity markets. Moreover, the Group achieved an increase in deal flows which drove fee income in syndications, corporate finance and advisory. Trade finance commission income benefited from higher transaction volumes, and in transaction banking, payments and cash management services delivered strong performances, driven by the growth in commercial balances.

Group Summary continued

Net trading income increased $341 million, or 37 per cent, to $1,261 million. On an underlying basis, net trading income grew 32 per cent. A significant proportion of this growth was client driven, with particularly high growth in derivatives sales. Income from interest rates and foreign exchange derivatives sales grew 60 per cent as a result of an expansion in product capabilities, improved electronic channel functionality and a continued focus on cross-selling. Own account income was broadly unchanged, as gains in foreign exchange trading were offset by losses incurred on interest rate derivatives and debt securities trading, and a $155 million mark-to-market loss incurred on economic hedges on mortgages in Korea.

Other operating income increased $389 million, or 79 per cent, to $880 million. On an underlying basis, other operating income increased 78 per cent, benefiting from higher dividend income received on structured finance transactions, gains realised from the sale of private equity investments and the disposal of debt securities, and a gain of $107 million in relation to the shares received as a consequence of the restructuring of Visa. Also included in other operating income is a $109 million foreign exchange gain realised on the repatriation of Singapore branch capital. These gains were offset, in part, by a loss of $116 million on the exchange of capital notes invested in Whistlejacket Capital Limited ("Whistlejacket"), a structured investment vehicle sponsored by the Group and $87 million in relation to writedowns on asset backed securities. Other operating income also included $98 million (2006: $106 million) of recoveries in respect of assets that had been fair valued at acquisition in Korea.

Operating expenses increased $1,419 million, or 30 per cent, to $6,215 million. Underlying expenses grew 24 per cent. Expenses grew mainly due to the increase in staffing levels, particularly in sales staff, and higher performance related pay.

Staff costs increased 36 per cent, or $1,036 million, to $3,949 million. Other investments were directed at enhancing the product suite and extending branch networks in China, Hong Kong, India, Pakistan and Korea. The Standard Chartered Private Bank was launched in 11 locations across seven markets. Further expenditure was incurred to upgrade and expand office premises and to strengthen regulatory compliance and control systems.

Operating profit before impairment increased $1,028 million, or 27 per cent, to $4,852 million. On an underlying basis operating profit before impairment increased by 23 per cent.

The credit environment remained generally favourable during the period, notwithstanding the turbulent market conditions triggered by the sub-prime mortgage crisis in the US. Overall loan impairment charges increased by $132 million, or 21 per cent, to $761 million. The incremental impact from acquisitions of $171 million was offset by a $39 million reduction in the underlying loan impairment charges. In Taiwan, total net impairment charges fell $96 million to $159 million, with underlying impairment falling $199 million due to the improved consumer credit environment, partially offset by a $103 million increase in impairment charges due to the full year impact of the Hsinchu acquisition. In Pakistan, total impairment charges were $65 million higher at $94 million, in part due to the full year impact of Union acquisition and also as a result of the deteriorating credit environment caused by political uncertainties. In Thailand and India, higher impairment charges were incurred due to a wider deterioration in the unsecured and consumer lending environment.

Other impairment charges increased to $57 million, mainly due to $35 million impairment in asset backed securities ("ABS") and $17 million intangible asset impairment related to Whistlejacket.

Underlying Results

To facilitate effective review of the Group's results, the table below shows the underlying results.

	2007			2006		
	Acquisitions $million	Underlying $million	As reported $million	Acquisitions $million	Underlying $million	As reported $million
Net interest income	521	5,744	6,265	218	5,110	5,328
Fees and commissions income, net	216	2,445	2,661	75	1,806	1,881
Net trading income	72	1,189	1,261	21	899	920
Other operating income	18	862	880	8	483	491
	306	4,496	4,802	104	3,188	3,292
Operating income	827	10,240	11,067	322	8,298	8,620
Operating expenses	(480)	(5,735)	(6,215)	(170)	(4,626)	(4,796)
Operating profit before impairment losses and taxation	347	4,505	4,852	152	3,672	3,824
Impairment losses on loans and advances and other credit risk provisions	(208)	(553)	(761)	(37)	(592)	(629)
Other impairment	–	(57)	(57)	–	(15)	(15)
Profit/(loss) from associates	–	1	1	–	(2)	(2)
Profit before taxation	139	3,896	4,035	115	3,063	3,178

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

	2007			2006		
Middle East and Other S Asia	Acquisitions $million	Underlying $million	As reported $million	Acquisitions $million	Underlying $million	As reported $million
Operating income	361	1,067	1,428	226	844	1,070
Operating expenses	(189)	(505)	(694)	(113)	(401)	(514)
Loan impairment	(94)	(49)	(143)	(29)	(24)	(53)
Profit before taxation	78	513	591	84	419	503

	2007			2006		
Other Asia Pacific	Acquisitions $million	Underlying $million	As reported $million	Acquisitions $million	Underlying $million	As reported $million
Operating income	459	1,642	2,101	96	1,288	1,384
Operating expenses	(286)	(927)	(1,213)	(57)	(728)	(785)
Loan impairment	(114)	(204)	(318)	(8)	(376)	(384)
Other impairment	–	–	–	–	(3)	(3)
Profit/(loss) from associates	–	2	2	–	(4)	(4)
Profit before taxation	59	513	572	31	177	208

The acquisition of Pembroke and Harrison Lovegrove are included within the 'Americas, UK & Europe' segment. The acquisition of A Brain is included with the 'Korea' segment. Additional disclosures of the effect of these acquisitions for these segments have not been made as the impact is not significant.

Consumer Banking

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

	2007										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Underlying $million	Consumer Banking Total $million
Operating income	**1,188**	**471**	**274**	**1,142**	**1,167**	**408**	**751**	**310**	**95**	**5,125**	**5,806**
Operating expenses	**(478)**	**(191)**	**(116)**	**(907)**	**(760)**	**(268)**	**(395)**	**(224)**	**(54)**	**(3,003)**	**(3,393)**
Loan impairment	**(53)**	**(15)**	**(41)**	**(96)**	**(308)**	**(77)**	**(129)**	**(17)**	**–**	**(544)**	**(736)**
Operating profit	**657**	**265**	**117**	**139**	**99**	**63**	**227**	**69**	**41**	**1,578**	**1,677**

	2006										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Underlying $million	Consumer Banking Total $million
Operating income	1,019	367	221	1,146	729	323	545	257	77	4,454	4,684
Operating expenses	(428)	(142)	(101)	(799)	(445)	(201)	(280)	(194)	(51)	(2,508)	(2,641)
Loan impairment	(53)	(36)	(36)	(88)	(390)	(46)	(61)	(12)	1	(686)	(721)
Operating profit/(loss)	538	189	84	259	(106)	76	204	51	27	1,260	1,322

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

Operating income by product	**2007 $million**	2006 $million
Cards, Personal Loans and Unsecured Lending	**2,089**	1,799
Wealth Management and Deposits	**2,621**	1,938
Mortgages and Auto Finance	**906**	780
Other	**190**	167
Total operating income	**5,806**	4,684

Consumer Banking continued

Consumer Banking's operating income increased by $1,122 million, or 24 per cent, to $5,806 million. Net interest income grew $649 million, or 18 per cent, to $4,194 million while non-interest income grew $475 million, or 39 per cent, to $1,689 million. Underlying income was up $671 million, or 15 per cent.

In Hong Kong, income growth gained momentum with 17 per cent growth compared with four per cent last year. Elsewhere, income grew strongly in Singapore, Malaysia, the UAE and India. In Korea, operating income was flat year on year.

Operating expenses grew $752 million, or 28 per cent, to $3,393 million. Underlying expenses were up $495 million, or 20 per cent. Significant investments were made in China, Hong Kong, Korea, Singapore and India. Investments were made to expand the sales force, with more than 4,000 branch sales consultants, customer relationship managers and direct sales agents recruited in the year. Over 70 new branches were opened and over 600 new ATMs installed or upgraded. The Standard Chartered Private Bank was launched in seven markets and 11 locations and the business in China was incorporated and approvals to conduct additional Renminbi businesses granted, providing further opportunities to grow the franchise.

Loan impairment increased marginally to $736 million. The loan impairment charge in the Taiwan branch decreased by $199 million as the credit environment continued to improve. In Pakistan, loan impairment was higher due to the full year impact of Union and political uncertainties which disrupted collection activities. In Thailand, higher loss rates were experienced due to a wider deterioration in the unsecured loan portfolio. Underlying loan impairment charges fell 21 per cent, or $142 million, to $544 million.

Operating profit improved $355 million, or 27 per cent, to $1,677 million. Underlying operating profits grew $318 million or 25 per cent, to $1,578 million.

In Hong Kong, income grew $169 million, or 17 per cent, to $1,188 million. Expenses rose $50 million, or 12 per cent. Higher average customer balances in current and savings accounts, and fixed deposits, complemented by improved spreads in current and savings accounts, contributed to the increase in net interest income. Net interest income in mortgages declined as higher new mortgage sales and average balances outstanding were more than offset by intense competition and rising funding costs which adversely affected net interest margins. Net interest income from credit cards, personal loans and other lending were largely unchanged. Higher average loan balances increased personal lending income while lower average balances and rollover rates reduced credit cards income. Against the backdrop of buoyant investor sentiment and ample liquidity, fee income grew significantly as a result of higher unit trust sales, higher insurance premiums and new structured investment products sold. Additional investments were made to expand the sales force, launch the private banking business, open five new branches and relocate and upgrade several other branches. Continued advertising expenditure and direct marketing campaigns were undertaken to support the increased sales initiatives during the period. Operating profit was up 22 per cent to $657 million.

In Singapore, income was up 28 per cent to $471 million. Net interest income from mortgages increased as a result of significantly higher new mortgage sales and average balances outstanding, against the backdrop of a vibrant domestic property market. Income also grew in credit cards and personal loans and the SME segment. Net interest income from deposit products was lower as the growth in average current and savings accounts balances was offset by a reduction in margins. Higher investment services fees from unit trust sales, structured investment products and foreign exchange services contributed to strong non-interest income growth. Expenses grew $49 million, or 35 per cent, to $191 million. Investments were made to expand the sales force, particularly in the SME segment and in private banking. Two new priority banking centres were opened and a customer service centre upgraded. Loan impairment fell 58 per cent to $15 million, as provisions were reduced in line with improved credit experience. Operating profit increased $76 million, or 40 per cent to $265 million.

In Malaysia, income increased $53 million, or 24 per cent, to $274 million. Operating profit was up by 39 per cent to $117 million. Improved rollover rates in credit cards and increased personal lending volumes, coupled with higher average credit card balances drove net interest income growth. Higher average balances of current and savings accounts compensated for the slight deterioration in savings accounts margin. Income from mortgages grew 11 per cent through tight margin management and anti-attrition efforts despite the stiff competition. Non-interest income was higher, driven by fees from unit trust and insurance sales. Operating expenses increased $15 million, or 15 per cent, to $116 million as investments were made to launch a new flagship branch and seven SME centres during the year, as well as increased personnel costs due to higher headcount and salary adjustments.

In Korea, operating income was marginally lower at $1,142 million. Net interest income grew as income from current and savings accounts increased due to margin improvements, partly offset by lower average balances. Fixed deposit balances reduced during the period as changes to regulations enabled the use of lower cost alternative funding sources to meet statutory liquidity requirements. Strong income growth was achieved in commercial lending to the SME segment with income increasing 42 per cent. Credit cards and personal loan income grew nine per cent, whilst income from mortgages was seven per cent lower due to lower average mortgages outstanding and margin deterioration. While fee income from unit trust, investment and insurance products grew, total non-interest income fell as there were additional charges incurred in relation to dormant accounts and on economic hedges of the mortgage portfolios due to accounting asymmetry, partially offset by a release of $67 million (2006: $55 million) fair value provisions due to further recoveries made. After adjusting for these items, the operating income growth would have been 10 per cent for the year. Expenses grew $108 million, or 14 per cent, to $907 million, with significant investments in distribution channels, over 100 new relationship managers recruited, four additional new branches opened, two branches relocated and 23 priority banking branches upgraded. Loan impairment was $8 million higher at $96 million. Operating profit fell $120 million, or 46 per cent, to $139 million.

In Other Asia Pacific, income grew $438 million, or 60 per cent, to $1,167 million. Expenses grew $315 million, or 71 per cent, to $760 million.

Consumer Banking continued

Operating profit for the year was $99 million. Underlying income grew $94 million, or 15 per cent, to $742 million. Underlying expenses of the region grew $115 million, or 29 per cent. Loan impairment for the region was $82 million lower, at $308 million. Underlying loan impairment fell by $185 million primarily due to the improved credit environment in Taiwan, and lower impairment in the Philippines and by Indonesia. Loan impairment in Thailand, however, increased by $18 million as a result of a wider credit deterioration in the unsecured lending portfolio.

In China, operating income grew 95 per cent, with net interest income growth driven by increased trade and lending volumes, supplemented by a significant increase in income from structured deposits and higher average current and savings accounts balances. Over $60 million of investments were made to customise retail banking products and services, to extend branches and ATM distribution infrastructure, and to increase sales, marketing and support staff. This high level of investment expenditure resulted in an operating loss for the year. In Taiwan, operating income grew by $301 million to $484 million reflecting the full year impact of the Hsinchu acquisition.

In India, income increased $85 million, or 26 per cent, to $408 million while operating expenses increased $67 million, or 33 per cent, to $268 million. Significantly higher average balances and improved margins on current and savings accounts contributed to a 28 per cent increase in overall net interest income. Investment in people, premises and private banking increased expenses. Other significant costs included investments in branches, service centre centralisation, ATMs and technology. Loan impairment increased $31 million, due to a wider deterioration in the unsecured consumer lending environment and increased portfolio impairment provision in unsecured lending and credit cards as the portfolio size increased. Operating profit fell $13 million, to $63 million.

Operating income in the MESA region increased by $206 million, or 38 per cent, to $751 million. Underlying income grew $99 million or 25 per cent. In the UAE, income grew 32 per cent to $302 million. Net interest income increased driven by higher average balances in current and savings accounts. Investment services and insurance continued to drive non-interest income growth. Significant growth in trade finance, business instalment loans and cash management and treasury services resulted in the doubling of operating income from the SME segment. Income in Pakistan grew 72 per cent to $256 million reflecting the full year impact of the Union acquisition. Expenses in the MESA region grew by $115 million, or 41 per cent to $395 million. Underlying expenses grew $58 million, or 29 per cent. Investments were targeted at improving premises infrastructure, expanding distribution channels and increasing the sales force. Additional expenses were also incurred for the integration of the Union acquisition.

Loan impairment increased $68 million to $129 million, reflecting higher impairment in Pakistan due to increased political uncertainties, and in the UAE, in relation to the credit cards and unsecured lending portfolios. Operating profit increased $23 million to $227 million for the region.

In Africa, operating profit grew $18 million, or 35 per cent to $69 million. Income grew 21 per cent, as higher volumes and improvements in margins drove deposit net interest income. Income from the SME segment improved as product capability was significantly upgraded to capture the increasing trade finance opportunities.

The Americas, UK & Europe saw an increase in operating profit of $14 million to $41 million. Income grew $18 million, or 23 per cent, to $95 million driven primarily by higher average deposit balances. Operating costs increased as additional expenses were incurred to launch the private banking business and additional recruitment of sales staff.

Product performance

Credit Cards, Personal Loans and Unsecured Lending grew operating income by $290 million, or 16 per cent, to $2,089 million. Underlying income grew nine per cent. This included a $107 million gain in relation to the shares received from the restructuring of Visa, with approximately three quarters of this gain recorded in Hong Kong and Singapore. Asset growth was controlled with stricter credit underwriting and approval policies to ensure the balance between good growth and credit quality was maintained.

Wealth Management and Deposits grew operating income by $683 million, or 35 per cent, to $2,621 million. Underlying income grew 18 per cent. The continued investment in the development of products and their wider distribution to more markets significantly enhanced the client proposition. Sales volumes of investment products increased over 50 per cent, driving a 38 per cent increase in non-interest income. Net interest income grew due to higher customer balances, with current and savings accounts now representing almost half of the deposit base.

Mortgages and Auto Finance income grew by $126 million, or 16 per cent, to $906 million. Underlying income grew three per cent. Mortgage balances outstanding were broadly unchanged, reflecting competitive pressures in a number of key markets.

Wholesale Banking

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

	2007										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Underlying $million	Wholesale Banking Total $million
Operating income	**870**	**421**	**184**	**418**	**933**	**899**	**676**	**485**	**357**	**5,097**	**5,243**
Operating expenses	**(347)**	**(239)**	**(69)**	**(239)**	**(445)**	**(260)**	**(299)**	**(244)**	**(672)**	**(2,724)**	**(2,814)**
Loan impairment	**3**	**(1)**	**3**	**2**	**(10)**	**(13)**	**(14)**	**(10)**	**15**	**(9)**	**(25)**
Other impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(55)**	**(57)**	**(57)**
Operating profit/(loss)	**526**	**181**	**118**	**181**	**478**	**626**	**363**	**229**	**(355)**	**2,307**	**2,347**

	2006										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Underlying $million	Wholesale Banking Total $million
Operating income	596	255	150	380	655	494	525	383	485	3,831	3,923
Operating expenses	(292)	(152)	(63)	(173)	(336)	(174)	(234)	(219)	(508)	(2,114)	(2,151)
Loan impairment	46	(3)	7	(8)	6	7	8	(14)	43	94	92
Other impairment	–	–	–	–	(3)	–	–	(9)	(3)	(15)	(15)
Operating profit	350	100	94	199	322	327	299	141	17	1,796	1,849

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

Operating income by product	**2007 $million**	2006 $million
Trade and Lending	**1,236**	1,006
Global Markets*	**2,673**	1,895
Cash Management and Custody	**1,334**	1,022
Total operating income	**5,243**	3,923

* 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 had a very strong year with significantly higher business volumes and income momentum. The key markets of the Group remained resilient in the midst of financial market turbulence. The investments made in a number of businesses and products have driven growth across key geographies.

Operating income grew $1,320 million, or 34 per cent, to $5,243 million. Net interest income was up 16 percent to $2,148 million while non-interest income increased 50 per cent to $3,095 million. Operating profit increased $498 million, or 27 per cent, to $2,347 million. On an underlying basis, operating income grew 33 per cent.

Client revenues grew 37 per cent. Client income represented approximately four fifths of total income and remained the key driver of growth. The focus on nurturing key client relationships, attracting new clients, improving product cross-sell and investing in higher-value and strategic products has resulted in a broad based income momentum across all client segments.

Operating expenses grew $663 million, or 31 per cent, to $2,814 million. Underlying expenses grew 29 per cent. A large proportion of the cost growth was due to increased performance related pay and personnel costs. Further investments were targeted to expand product capabilities, such as in equity derivatives and in electronic foreign exchange dealing channels, and to broaden principal finance coverage to include the Middle East and Africa. Investments were also made to improve operational efficiencies and service levels, for example, investment in a new documentary trade system which enables straight through processing as well as expenditure to strengthen the compliance and control systems.

The benign credit environment persisted through most of the year with the recent turmoil in the credit markets having limited impact on the results for the year. Low specific provisions reflected strong risk management discipline and portfolio quality. Loan impairment recoveries were significantly lower, resulting in a net loan impairment charge of $25 million for the year. However, other impairment charges increased to $57 million mainly due to impairment in asset backed securities of $35 million, and $17 million intangible asset impairment relating to Whistlejacket.

Wholesale Banking continued

In Hong Kong, income grew $274 million, or 46 per cent, to $870 million. Operating profit grew 50 per cent to $526 million. Higher average client account balances resulting, in part, from strong equity market activities, drove overall net interest income up by $70 million. Higher foreign exchange, options and other derivatives sales contributed significantly to non-interest income growth, with improved trading performance driving own account income. Increased volumes in securities services and higher average assets under management drove custodial services fees higher. In addition, there was strong growth in fees earned from corporate finance and structured finance transactions during the year. Expenses grew $55 million, or 19 per cent, to $347 million with this increase primarily directed towards building the sales force, improving sales and performance incentives and enhancing product capabilities.

Income in Singapore grew $166 million, or 65 per cent, to $421 million. Operating profit grew $81 million, or 81 per cent, to $181 million. Significant contributions from loan syndications, structured finance transactions and private equity gains added over $100 million to overall income growth. Revenues were also higher from foreign exchange and interest rate derivative sales. Own account income was flat with higher ALM income offset by lower trading income in interest rate and foreign exchange derivatives. Expenses grew $87 million, or 57 per cent, to $239 million reflecting increased recruitment, higher salary and performance related incentives and continued investments in product capabilities.

In Malaysia, income increased $34 million, or 23 per cent, to $184 million. Expenses grew $6 million, or 10 per cent, to $69 million. Operating profit increased by 26 per cent to $118 million. Higher average balances contributed to net interest income growth while the growth in non-interest income was principally due to higher fees from syndications, debt financing and corporate advisory. Custody and securities services benefited from higher stock market activities. Income from foreign exchange and derivatives sales grew strongly but this was partly offset by losses incurred on own account trading.

Income in Korea increased $38 million, or 10 per cent, to $418 million. Net interest income increased 11 per cent, as higher average balances drove interest income growth. Trade and lending revenues were broadly unchanged. Non-interest income increased as a result of higher income from foreign exchange and derivatives sales and private equity gains, offset by interest rate derivatives trading losses. During the period, there were $32 million (2006: $51 million) of recoveries on assets that had been fair valued at acquisition, offset by the loss arising from economic hedges due to accounting asymmetry. Excluding these items, operating income growth would have been 31 per cent. Expenses grew $66 million, or 38 per cent, to $239 million. Operating profit for the year was $181 million.

Other Asia Pacific region delivered strong income growth of $278 million, or 42 per cent, to $933 million, with expenses rising 32 per cent, to $445 million. Operating profit grew $156 million, or 48 per cent, to $478 million. Underlying income grew $259 million, or 40 per cent, to $899 million. Underlying profit was up 54 per cent.

In China, operating income grew 67 per cent to $379 million and operating profit increased $98 million to $215 million. Interest income from cash management was significantly higher, as average deposit balances grew over 50 per cent. Higher utilisation of trade facilities more than compensated for regulatory restrictions which affected lending revenues. Custody and securities services income grew as the number of settled trades and assets under custody increased. Fee income from debt financing and syndications were higher and there were gains realised from a private equity investment.

In Indonesia, Thailand and the Philippines, there was strong income growth, up 33 per cent to $345 million, on the back of strong foreign exchange and derivatives sales.

In India, income grew $405 million, or 82 per cent, to $899 million. Operating profit increased 91 per cent to $626 million. A buoyant domestic economy drove capital market activities and improved investor sentiment. Assets under administration and settlement volumes increased significantly amidst a booming equity market. Higher average customer balances and improved liability margins drove interest income higher. In addition, income grew from increased lending to the commercial real estate sector, several large acquisition finance transactions, and higher trade financing volumes. Fee income growth was generated from corporate finance and advisory, debt capital markets, structured finance transactions and private equity gains. Own account trading income increased with good performance in fixed income and foreign exchange trading. Expenses increased by $86 million, or 49 per cent, to $260 million, with increased hiring of product specialists and sales staff, increased performance related incentives, premises improvements and systems infrastructure expenditure.

Operating income in the MESA region rose $151 million, or 29 per cent, to $676 million. Operating profit grew $64 million, or 21 per cent, to $363 million. Income growth was broad based across the region with most countries generating high growth in operating income and profit. In the UAE, income grew 24 per cent to $261 million. Client revenues grew across most products, notably in cash management and transaction banking, interest rate and foreign exchange derivatives sales, reflecting the benefits of investment in adding product capability and range in recent years. However, own account income was lower due to losses incurred in interest rate derivatives trading. In Bahrain and Qatar, the combined operating income was up over 51 per cent, to $145 million. In Pakistan, income grew 36 per cent, to $105 million, reflecting good underlying growth as well as the full year impact of the Union acquisition. Expenses in the region grew $65 million, or 28 per cent, to $299 million due to higher recruitment levels, premises and infrastructure costs as well as acquisition integration costs.

In Africa, income grew $102 million, or 27 per cent, to $485 million. In Nigeria, income was up 60 per cent to $115 million. In Tanzania, Kenya and Uganda, the combined income grew $36 million, or 34 per cent, to $141 million. Operating income was driven by growth in transaction banking revenues, with average wholesale deposit balances increasing significantly, offsetting a small decline in margins. Higher fees were earned on corporate advisory and debt financing transactions.

Wholesale Banking continued

Expenses increased 11 per cent to $244 million. Operating profit increased $88 million, or 62 per cent, to $229 million.

Operating income in the Americas, UK & Europe decreased by $128 million, or 26 per cent, to $357 million. Expenses grew by $164 million, or 32 per cent, to $672 million. Operating loss for the period was $355 million.

In the Americas, income was up 33 per cent, or $71 million, to $289 million as revenues grew strongly in foreign exchange and derivatives sales, trade and cash management, as well as achieving higher corporate finance and ALM income. Operating expenses were up 15 per cent, or $28 million, to $212 million. Operating profit in the Americas was $86 million, or 72 per cent higher than last year.

In the UK & Europe, income fell $199 million, to $68 million. Growth in client revenues was strong, particularly in foreign exchange and derivatives sales, trade finance and cash management. However this was offset by a loss of $116 million incurred on the exchange of capital notes held in Whistlejacket, and $131 million writedowns and trading losses in asset backed securities in turbulent market conditions during the second half of the year. Operating expenses were up $136 million, to $460 million, reflecting continued investment in product development, new business initiatives and higher salary costs, mainly performance related pay. Other impairment charges increased, due to a $17 million intangible asset impairment related to Whistlejacket, and $35 million impairment in asset backed securities held.

Product Performance

Trade and Lending income increased 23 per cent to $1,236 million, with underlying income growing 19 per cent. Trade income grew as volumes increased, driven in part by supply-chain financing and receivables services, partially offsetting the impact of tightening margins. While higher loan origination activities grew lending assets, this was offset by active loan sales and structured credit transactions to optimise capital deployment. Lending income was up 19 per cent.

Global Markets' income grew 41 per cent to $2,673 million. Client revenues grew significantly on the back of improved product cross-selling efforts and higher client penetration. Derivatives and foreign exchange sales grew income by 60 per cent. Client income grew over 70 per cent in the debt capital markets and corporate finance units on the back of strong loan syndication and bond issuance volumes combined with the completion of several landmark cross-border corporate advisory and project finance transactions. Private equity investments have delivered high return on investments, with a number of realisations during the period. However, own account income was affected by losses due to writedowns and trading losses in asset backed securities of $131 million and a $116 million loss incurred on the exchange of capital notes held in Whistlejacket.

Cash Management and Custody income was up 31 per cent at $1,334 million. Underlying income grew 26 per cent, as higher transaction volumes drove fee income growth, and higher cash balances increased net interest income. Securities assets under administration grew significantly as higher transaction volumes drove increased income in securities services.

Risk Management Review

The credit environment in the majority of the Group's core markets remained generally benign throughout 2007, notwithstanding the turbulent market conditions in some western markets in the second half of the year triggered by the sub-prime mortgage crisis in the United States. The Group's strategy to pursue growth in Asia, Africa and the Middle East has resulted in no direct exposure to US sub-prime mortgages and extremely limited indirect exposure.

The Group's liquidity remains strong and is being used to strengthen relationships with key clients and to continue to support growth opportunities.

Market risk is tightly controlled using Value at Risk ("VaR") methodologies complemented by stress testing. VaR increased in 2007 as a consequence of increased volatility and growth in the financial markets business of the Wholesale Bank.

The Wholesale Banking portfolio remains robust with new provisions continuing at a low level. The absolute level of recoveries in 2007 was lower than in recent years due to a lower stock of problem accounts after several years of benign credit conditions, and good progress in management of these accounts. Forward credit portfolio quality indicators remain stable. The Wholesale Banking asset backed securities portfolio includes mortgage backed securities and collateralised debt obligations. This portfolio, representing around two per cent of assets, has been affected by the market dislocation but has had limited impact on the Group's performance. The asset backed securities portfolio continues to be closely monitored and proactively managed.

In 2007, the Consumer Banking credit portfolio performance continued to be driven primarily by country specific factors. Total net loan impairment as a percentage of loans and advances improved marginally year-on-year and gross non-performing loans were significantly lower than at last year end. There was a material improvement in Taiwan's loan impairment as compared to 2006 due to a more favourable consumer credit climate. The Consumer Banking portfolios in Singapore also performed particularly well in terms of delinquency and impairment. Economic conditions, in part resulting from political instability, led to a deterioration in credit quality in Pakistan and Thailand in 2007.

Good progress is being made on the integration of risk controls and processes into the two acquisitions, Union in Pakistan and Hsinchu in Taiwan.

The requirements of Basel II are broadly consistent with our established approaches to risk measurement: the Group strongly supports the principle of a more risk sensitive approach to capital adequacy, facilitated by the Basel II framework. Accordingly, we are pleased to have received from the Financial Services Authority ("FSA") in the United Kingdom approval to use the Advanced Internal Ratings Based approaches for the calculation of credit risk capital, covering the vast majority of our assets globally. We have also received a similar approval from the Hong Kong Monetary Authority in respect of our business there. Management is working closely with other regulators to ensure that the Group is well placed to benefit from the local rollout of Basel II.

Risk Governance

Through its risk management framework the Group seeks to efficiently manage credit, market, country and liquidity risk, which arise directly through the Group's commercial activities, as well as operational, regulatory and reputational risks which arise as a normal consequence of any business undertaking.

As part of this framework, the Group uses a set of principles that describe the risk management culture the Group wishes to sustain. All risk decisions and risk management activity should be in line with, and in the spirit of, the risk principles of the Group. The 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, in line with the Group's strategy and within its risk appetite;
- Responsibility: given the Group is in the business of taking risk, it is everyone's responsibility to seek 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 seeks to ensure awareness of all risks;
- Competitive advantage: the Group seeks competitive advantage through efficient and effective risk management and control.

Ultimate responsibility for the effective management of risk rests with the Board of Standard Chartered PLC. 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").

The Board's remit for management of credit risk, country risk, market risk, operational risk, regulatory risk and reputational risk is delegated to GRC.

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.

GALCO, through authority delegated by the Board, is responsible for the maintenance of capital ratios and 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.

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.

Risk Governance continued

The committee governance structure seeks to ensure that risk management standards and policies are cascaded down through the organisation from the Board through the GRC and the GALCO to functional, regional and country level committees. Information is communicated through the country, regional and functional committees to the Group level committees, which seeks to ensure that key risk issues are addressed at the appropriate level and to provide assurance that standards and policies are being followed.

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 origination and sales functions of the businesses. The Risk function performs the following core activities:

- Informs and challenges business strategy, material discussions and processes to encourage rigour, quality, optimisation and transparency in relation to risk efficiency;
- Independently controls the risk management processes which seeks to ensure discipline and consistency with risk standards, policy and risk appetite;
- Advises on risk management frameworks, the structuring of products and transactions, and on the assessment and measurement of risk;
- Facilitates and manages risk processes which seeks to ensure operational efficiency, effectiveness and best practice;
- Communicates with stakeholders to demonstrate compliance with requirements in relation to risk management;

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 activities;
- 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 policies.

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

The GED Risk and the Group Chief Risk Officer, together with Director, People, Property and Assurance and 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 Appetite

Risk appetite is an expression of the amount of risk the Group is prepared to take to achieve its strategic objectives. The Group's risk appetite defines the acceptable level of earnings volatility. Recognising a range of outcomes as business plans are implemented, risk appetite reflects the Group's capacity to sustain potential losses at varying levels of probability, based on available capital resources.

The Group has defined its risk appetite in the context of three key criteria: the overall capacity to take risk; balancing the expectations of all key stakeholders; and support for the Group's credit rating.

The Group uses a range of quantitative risk indicators including capital ratios, profitability, return on equity, portfolio credit risk profile and market risk VaR, through which senior management monitor the Group's risk profile. In addition to financial measures of risk, the Group also controls risk through concentration caps and underwriting policies. Measures vary by country, business and product area.

The annual business planning and regular performance management processes aim to ensure the expression of risk appetite remains appropriate.

Stress Testing

Stress testing and scenario analysis 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.

Stress testing and scenario analysis help to inform management with respect to:

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

The stress testing framework has been implemented to meet the following requirements:

- enable the Group to set and monitor its risk appetite;
- identify key risks to the Group's strategy, financial position, and reputation;
- assess the impact on the Group's profitability and business plans;
- seek to ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- inform senior management; and
- satisfy regulatory requirements.

The stress testing forum is led by the Risk function with participation from the businesses, Finance and Group Treasury. Its primary objective is to seek to ensure the Group understands the earnings volatility and capital implications of given stress scenarios. A key responsibility of the stress testing forum is to generate and consider pertinent and plausible scenarios that have the potential to adversely affect the Group.

Stress Testing continued

In view of recent market turbulence, stress testing activity has been intensified at country, business and Group levels, with specific focus on certain asset classes, client segments and the potential impact of macro economic factors. Stress tests have taken into consideration possible future scenarios that could arise as a result of prevailing market conditions. The stress tests provide the Group with an understanding of the way in which its portfolios may react to stress events and the management actions that would need to be taken if these scenarios unfold. The results confirm that the Group's geographic and business diversity reduce the impact at a Group level with no material vulnerabilities in the short-term in the Group's overall portfolio.

Credit Risk

Credit Risk Management

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation.

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

The Group Chief Credit Officer ("GCCO") is the RTO for credit risk. The standards and Groupwide credit policies recommended by the GCCO are considered and approved by the GRC, which also oversees the delegation of credit authorities.

Policies and procedures that are specific to each business are established by both Consumer and Wholesale Banking. These are consistent with the Group-wide credit policies, but are adapted to reflect the different risk environments and portfolio characteristics. There are Chief Risk Officers for both the Consumer and Wholesale Banking businesses, who have their primary reporting line into the Group Chief Risk Officer. This ensures the independence of the Risk function from the origination and sales functions.

Risk Mitigation

Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees and letters of credit. The Group also enters into collateralised reverse repurchase agreements. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back-tested at least annually.

Concentration Risk

Credit concentration risk in the Wholesale Banking portfolio is managed through the Credit Issues Forum, which is chaired by the Wholesale Bank Chief Risk Officer and comprises members of senior management from the Risk function and the business. Various concentration dimensions are assessed including industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Consumer Banking is managed within exposure limits set for each product segment in each country. These limits are reviewed at least annually and are approved by the responsible business and risk officer in accordance with their delegated authority level.

Derivatives

The credit risk arising from derivatives is managed as part of the overall lending limits to banks and customers. The amount of credit risk is the current positive fair value of the underlying contract together with potential exposures from future 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 the financial statements as in the ordinary course of business they are not intended to be settled net.

Where appropriate, derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, derivatives are only used in a controlled manner and within a pre-defined volatility expectation.

Securities

Within Wholesale Banking, the Underwriting Committee approves the portfolio limits and parameters by business units for the underwriting and purchase of all pre-defined securities assets to be held for sale. The Underwriting Committee is established under the authority of the GRC. The business operates within set limits, which include country, single issuer, holding period and credit grade limits. The Underwriting Committee approves underwriting applications. Day to day credit risk management activities are carried out by Markets & Institution Risk Management ("MIRM") whose activities include oversight and approval of temporary excesses within the levels as delegated by the Underwriting Committee. Issuer risk monitoring is performed by Group Market Risk, whilst the counterparty re-settlement and settlement risk arising on the sale and purchase of securities is monitored by MIRM. The price risk in respect of these assets is controlled by the Market Risk function.

Wholesale Banking Credit Risk

Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators and the approvers in the Risk function.

An alphanumeric 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. The numeric grades run from 1 to 14. Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale, to enable more granular mapping of the probability of default, which results in more refined risk assessment, risk control and pricing. A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

There is no direct relationship between the Group's internal credit grades and those used by external rating agencies. The Group's credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of the Group's internal credit grades.

Credit Risk Management continued

In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. Significant exposures are reviewed and approved centrally through a Group or regional level credit committee. These committees derive their authority from GRC.

To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty group and portfolio exposure information, credit grade migration information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets. Internal Ratings Based ("IRB") portfolio metrics are widely used.

Consumer Banking Credit Risk

Credit risk in Consumer Banking is also managed through a framework of policies and procedures. Credit origination uses standard application forms, 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.

To aid Credit Managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios and countries, portfolio delinquency and loan impairment performance, as well as IRB portfolio metrics including migration across credit grades and other trends.

Credit grades within Consumer Banking are based on a probability of default calculated using advanced IRB models.

For portfolios where such models have not yet been developed, the probability of default is calculated using portfolio delinquency flow rates. An alphanumeric grading system identical to that of the Wholesale Banking business is used as an index of portfolio quality.

Loan Portfolio

Loans and advances to customers have grown by $16.5 billion to $157.0 billion.

The total Consumer Banking portfolio has grown by $3.6 billion since December 2006. The majority of the growth has been in the SME business, with nearly half of that growth coming from Korea. The Singapore mortgage portfolio also grew significantly, fuelled by a buoyant property market.

Growth in the Wholesale Banking customer portfolio was $12.9 billion, or 21 per cent. Over 40 per cent of that growth was in Asia Pacific, widely spread across a number of countries in that region. The significant growth in Americas, UK & Europe primarily reflects the increased contribution from the Global Markets products.

Exposures to banks grew by 79 per cent. This reflects the Group's strong liquidity position, with much of that liquidity placed with high quality bank counterparties. The growth was well spread across geographies, with about two thirds of it in Asia Pacific.

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors. The Group has achieved additional risk distribution through credit default swaps and synthetic risk transfer structures.

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.

	2007									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals										
Mortgages	**11,845**	**4,615**	**2,441**	**22,634**	**6,333**	**1,638**	**493**	**254**	**120**	**50,373**
Other	**2,288**	**1,396**	**1,002**	**4,712**	**3,929**	**1,208**	**2,829**	**615**	**170**	**18,149**
Small and medium enterprises	**1,188**	**1,687**	**828**	**5,937**	**2,375**	**920**	**660**	**143**	**2**	**13,740**
Consumer Banking	**15,321**	**7,698**	**4,271**	**33,283**	**12,637**	**3,766**	**3,982**	**1,012**	**292**	**82,262**
Agriculture, forestry and fishing	**16**	**163**	**102**	**26**	**186**	**51**	**193**	**335**	**529**	**1,601**
Construction	**111**	**35**	**38**	**204**	**246**	**225**	**487**	**48**	**27**	**1,421**
Commerce	**1,865**	**2,094**	**369**	**434**	**2,510**	**722**	**2,430**	**703**	**1,758**	**12,885**
Electricity, gas and water	**550**	**76**	**45**	**176**	**352**	**9**	**411**	**277**	**883**	**2,779**
Financing, insurance and business services	**2,129**	**1,858**	**606**	**910**	**2,276**	**566**	**1,517**	**227**	**4,540**	**14,629**
Governments	**–**	**3,220**	**3,941**	**8**	**26**	**–**	**341**	**8**	**265**	**7,809**
Mining and quarrying	**–**	**31**	**8**	**93**	**159**	**65**	**238**	**138**	**2,722**	**3,454**
Manufacturing	**1,908**	**701**	**453**	**3,533**	**5,896**	**1,789**	**1,524**	**374**	**3,727**	**19,905**
Commercial real estate	**1,050**	**675**	**3**	**1,094**	**995**	**364**	**99**	**8**	**10**	**4,298**
Transport, storage and communication	**313**	**323**	**209**	**124**	**680**	**137**	**709**	**196**	**1,660**	**4,351**
Other	**148**	**338**	**7**	**424**	**268**	**18**	**796**	**22**	**102**	**2,123**
Wholesale Banking	**8,090**	**9,514**	**5,781**	**7,026**	**13,594**	**3,946**	**8,745**	**2,336**	**16,223**	**75,255**
Portfolio impairment provision	**(47)**	**(40)**	**(25)**	**(80)**	**(182)**	**(56)**	**(81)**	**(18)**	**(6)**	**(535)**
Total loans and advances to customers	**23,364**	**17,172**	**10,027**	**40,229**	**26,049**	**7,656**	**12,646**	**3,330**	**16,509**	**156,982**
Total loans and advances to banks	**15,156**	**2,531**	**928**	**1,504**	**4,866**	**552**	**1,406**	**371**	**10,365**	**37,679**

Total loans and advances to customers include $2,716 million held at fair value through profit or loss. Total loans and advances to banks include $2,314 million held at fair value through profit or loss.

Loan portfolio continued

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	*, **Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	*Total $million
Loans to individuals										
Mortgages	11,245	3,551	2,593	23,954	5,968	1,492	416	239	155	49,613
Other	2,235	1,028	771	4,612	4,523	928	2,650	483	537	17,767
Small and medium enterprises	919	1,548	883	4,907	2,023	567	323	133	–	11,303
Consumer Banking	14,399	6,127	4,247	33,473	12,514	2,987	3,389	855	692	78,683
Agriculture, forestry and fishing	53	13	53	20	108	25	65	159	297	793
Construction	57	29	26	262	181	198	332	78	2	1,165
Commerce	1,986	1,320	331	348	1,407	608	1,995	457	1,269	9,721
Electricity, gas and water	176	17	56	31	314	26	193	80	815	1,708
Financing, insurance and business services	1,817	1,664	724	1,176	1,901	479	1,245	182	3,264	12,452
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	4,756	1,435	1,848	406	2,504	17,368
Commercial real estate	819	708	5	849	720	231	27	7	–	3,366
Transport, storage and communication	277	338	149	189	495	249	810	173	1,647	4,327
Other	220	406	9	496	357	5	314	39	115	1,961
Wholesale Banking	7,687	8,527	4,978	6,642	10,583	3,288	7,185	1,691	11,772	62,353
Portfolio impairment provision	(49)	(28)	(26)	(86)	(246)	(33)	(58)	(10)	(6)	(542)
Total loans and advances to customers	22,037	14,626	9,199	40,029	22,851	6,242	10,516	2,536	12,458	140,494
Total loans and advances to banks	6,474	939	161	1,753	4,462	477	1,058	387	5,353	21,064

* Amounts have been restated as explained in note 33 on page 65.

** Amounts have been re-presented following a re-analysis of acquired loan portfolios.

Total loans and advances to customers include $1,194 million held at fair value through profit or loss. Total loans and advances to banks include $1,340 million held at fair value through profit or loss.

Maturity Analysis

Approximately 51 per cent of the Group's loans and advances to customers are short term having a contractual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term, with 79 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 61 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.

	2007			
	One year or less $million	**One to five years $million**	**Over five years $million**	**Total $million**
Loans to individuals				
Mortgages	**3,490**	**8,027**	**38,856**	**50,373**
Other	**8,941**	**7,325**	**1,883**	**18,149**
Small and medium enterprises	**8,028**	**3,494**	**2,218**	**13,740**
Consumer Banking	**20,459**	**18,846**	**42,957**	**82,262**
Agriculture, forestry and fishing	**1,332**	**227**	**42**	**1,601**
Construction	**1,128**	**249**	**44**	**1,421**
Commerce	**11,585**	**1,066**	**234**	**12,885**
Electricity, gas and water	**1,727**	**398**	**654**	**2,779**
Financing, insurance and business services	**12,073**	**2,054**	**502**	**14,629**
Governments	**7,618**	**86**	**105**	**7,809**
Mining and quarrying	**1,515**	**1,029**	**910**	**3,454**
Manufacturing	**15,603**	**3,128**	**1,174**	**19,905**
Commercial real estate	**2,761**	**1,510**	**27**	**4,298**
Transport, storage and communication	**2,373**	**980**	**998**	**4,351**
Other	**1,704**	**348**	**71**	**2,123**
Wholesale Banking	**59,419**	**11,075**	**4,761**	**75,255**
Portfolio impairment provision				**(535)**
				156,982

	2006*			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	4,378	8,729	36,506	49,613
Other	9,141	6,393	2,233	17,767
Small and medium enterprises	6,299	2,812	2,192	11,303
Consumer Banking	19,818	17,934	40,931	78,683
Agriculture, forestry and fishing	637	63	93	793
Construction	973	161	31	1,165
Commerce	9,015	630	76	9,721
Electricity, gas and water	762	334	612	1,708
Financing, insurance and business services	9,401	2,296	755	12,452
Governments	6,759	117	121	6,997
Mining and quarrying	1,836	231	428	2,495
Manufacturing	13,951	2,239	1,178	17,368
Commercial real estate	1,996	1,343	27	3,366
Transport, storage and communication	2,079	1,360	888	4,327
Other	1,177	431	353	1,961
Wholesale Banking	48,586	9,205	4,562	62,353
Portfolio impairment provision				(542)
				140,494

* Amounts have been restated as explained in note 33 on page 65.

Problem Credit Management and Provisioning

Consumer Banking

Within Consumer Banking, an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 30, 60, 90, 120, and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collections processes.

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 which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further 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 loans for which payments are current and loans overdue for less than 150 days.

The PIP is set with reference to past experience using a 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. These include flow rates across all delinquency buckets, portfolio loss severity, collections and recovery performance trends.

Non-performing loans past due by more than 90 days or have an individual impairment provision raised against them. The cover ratio reflects the extent to which the gross non-performing loans are covered by the individual and portfolio impairment provisions.

The table below sets out the total non-performing loans in Consumer Banking, which includes $517 million (2006: $909 million) of net individually impaired loans (note 14). The significant decrease in non-performing loans is a result of improved conditions in Taiwan, strong performance in Singapore, and improvements in SME portfolio quality in Korea.

	2007									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances										
Gross non-performing	**65**	**61**	**166**	**336**	**475**	**56**	**126**	**38**	**1**	**1,324**
Individual impairment provision	**(24)**	**(26)**	**(38)**	**(125)**	**(329)**	**(19)**	**(75)**	**(18)**	**(1)**	**(655)**
Non-performing loans net of individual impairment provision	**41**	**35**	**128**	**211**	**146**	**37**	**51**	**20**	**–**	**669**
Portfolio impairment provision										**(412)**
Net non-performing loans and advances										**257**
Cover ratio										**81%**

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	*Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	*Total $million
Loans and advances										
Gross non-performing	80	100	202	531	821	48	98	24	5	1,909
Individual impairment provision	(29)	(38)	(67)	(239)	(387)	(17)	(62)	(10)	(3)	(852)
Non-performing loans net of individual impairment provision	51	62	135	292	434	31	36	14	2	1,057
Portfolio impairment provision										(448)
Net non-performing loans and advances										609
Cover ratio*										68%

* Individual impairment provisions relating to the finalisation of acquisition fair values have been restated as explained in note 33 on page 65. Gross non-performing loans within 'Other Asia Pacific' have been increased by $153 million to reflect additional non-performing loans identified as part of the finalisation of these fair values.

Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subject to a dedicated process with oversight involving senior officers from the Risk function and Group Special Asset Management ("GSAM"), the specialist recovery unit. Account plans are re-evaluated and remedial actions are agreed and monitored. 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.

Loans are classified as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days 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.

Future cash flows are estimated by taking into account the individual circumstances of each customer and can arise from operations, sales of assets or subsidiaries, realisation of collateral or payments under guarantees. Cash flows from all available sources are considered. 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.

Where it is considered that there is no realistic prospect of recovering an element of an exposure against which an impairment provision has been raised, then that amount will be written off.

As with Consumer Banking, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. In Wholesale Banking, the PIP is set with reference to past experience using loss rates, and judgemental factors such as the economic environment and the trends in key portfolio indicators.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. At 75 per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by individual impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

The following table sets out the total non-performing portfolio in Wholesale Banking, which includes net individually impaired loans of $372 million (2006: $538 million) (note 14):

	2007									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances										
Gross non-performing	**92**	**26**	**23**	**47**	**358**	**27**	**147**	**79**	**193**	**992**
Individual impairment provision	**(50)**	**(18)**	**(21)**	**(12)**	**(235)**	**(25)**	**(122)**	**(48)**	**(87)**	**(618)**
Non-performing loans and advances net of individual impairment provision	**42**	**8**	**2**	**35**	**123**	**2**	**25**	**31**	**106**	**374**
Portfolio impairment provision										**(124)**
Net non-performing loans and advances										**250**
Cover ratio										**75%**

Wholesale Banking continued

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	*Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	*Total $million
Loans and advances										
Gross non-performing	167	69	29	110	626	24	121	100	152	1,398
Individual impairment provision	(130)	(46)	(25)	(46)	(238)	(22)	(114)	(58)	(151)	(830)
Non-performing loans and advances net of individual impairment provision	37	23	4	64	388	2	7	42	1	568
Portfolio impairment provision										(95)
Net non-performing loans and advances										473
Cover ratio*										66%

* Individual impairment provisions relating to the finalisation of acquisition fair values have been restated as explained in note 33 on page 65. Gross non-performing loans within 'Other Asia Pacific' have been increased by $375 million to reflect additional non-performing loans identified as part of the finalisation of these fair values.

	2007									
	Asia Pacific									
	Hong Kong $million	**Singapore $million**	**Malaysia $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Europe $million**	**Total $million**
Gross impairment charge	**22**	**7**	**1**	**5**	**11**	**13**	**18**	**15**	**2**	**94**
Recoveries/provisions no longer required	**(25)**	**(9)**	**(4)**	**(3)**	**(5)**	**(7)**	**(11)**	**(14)**	**(17)**	**(95)**
Net individual impairment (credit)/charge	**(3)**	**(2)**	**(3)**	**2**	**6**	**6**	**7**	**1**	**(15)**	**(1)**
Portfolio impairment provision										**26**
Net impairment charge										**25**

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $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 (credit)/charge	(36)	3	(6)	4	(8)	(10)	(8)	13	(42)	(90)
Portfolio impairment provision										(2)
Net impairment credit										(92)

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:

	2007									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Provisions held at 1 January 2007	**159**	**84**	**92**	**285**	**625**	**39**	**176**	**68**	**154**	**1,682**
Exchange translation differences	**–**	**2**	**5**	**(1)**	**6**	**5**	**(3)**	**5**	**1**	**20**
Amounts written off	**(161)**	**(62)**	**(92)**	**(128)**	**(468)**	**(84)**	**(115)**	**(19)**	**(54)**	**(1,183)**
Recoveries of acquisition fair values	**–**	**–**	**–**	**(98)**	**–**	**–**	**–**	**–**	**–**	**(98)**
Recoveries of amounts previously written off	**34**	**12**	**16**	**–**	**42**	**19**	**12**	**1**	**3**	**139**
Discount unwind	**(4)**	**(4)**	**(4)**	**(21)**	**(28)**	**(1)**	**(1)**	**(2)**	**(1)**	**(66)**
Other	**–**	**–**	**–**	**–**	**2**	**1**	**7**	**–**	**–**	**10**
New provisions	**113**	**52**	**109**	**119**	**484**	**98**	**170**	**35**	**2**	**1,182**
Recoveries/provisions no longer required	**(67)**	**(40)**	**(67)**	**(19)**	**(99)**	**(33)**	**(49)**	**(22)**	**(17)**	**(413)**
Net charge against/(credit) to profit	**46**	**12**	**42**	**100**	**385**	**65**	**121**	**13**	**(15)**	**769**
Provisions held at 31 December 2007	**74**	**44**	**59**	**137**	**564**	**44**	**197**	**66**	**88**	**1,273**

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	*Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $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	(119)	(108)	(51)	(64)	(403)	(64)	(88)	(17)	(48)	(962)
Recoveries of acquisition fair values	–	–	–	(106)	–	–	–	–	–	(106)
Recoveries of amounts previously written off	49	8	11	8	18	17	12	2	3	128
Acquisitions	–	–	–	–	463	–	144	–	–	607
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	625	39	176	68	154	1,682

* Amounts have been restated as explained in note 33 on page 65.

Total exposures to Asset Backed Securities

At 31 December 2007, the Group had the following exposures to asset backed securities prior to writedowns noted below:

	Asset Securitisation Group $million	Purchased from Whistlejacket $million	Total $million	Percentage of Portfolio %
Residential Mortgage Backed Securities ("RMBS")	**607**	**1,316**	**1,923**	**33**
Collateralised Debt Obligations ("CDOs")	**219**	**491**	**710**	**12**
Commercial Mortgage Backed Securities ("CMBS")	**830**	**308**	**1,138**	**19**
Other Asset Backed Securities ("Other ABS")	**970**	**1,115**	**2,085**	**36**
	2,626	**3,230**	**5,856**	**100**

Writedowns of Asset Backed Securities

	Asset Securitisation Group			
	Trading $million	Available-for-sale $million	**Purchased from Whistlejacket $million	Total $million
2007				
Charge to available-for-sale reserves	**–**	**(38)**	**(45)**	**(83)**
Charge to the profit and loss account	**(44)**	**(122)**	*****(116)**	**(282)**
2008*				
Charge to available-for-sale reserves	**–**	**(21)**	**(15)**	**(36)**
Charge to the profit and loss account	**(13)**	**–**	**–**	**(13)**

* Movements from 1 January 2008 to 31 January 2008.

** All classified as available-for-sale.

*** This relates to the loss incurred on the exchange of capital notes held in Whistlejacket.

The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities which have been subject to an impairment charge, 98 per cent of the overall portfolio is rated A, or better, and 86 per cent of the overall portfolio is rated at AAA. The portfolio is broadly diversified across asset classes and geographies, and there is no direct exposure to the US sub-prime market.

33 per cent of the overall portfolio is invested in RMBS, with a weighted average credit rating of AAA. Over 60 per cent of the residential mortgage exposures were originated in 2005 or earlier years.

12 per cent of the overall portfolio is in CDOs. This includes $291 million of exposures to Mezzanine and High Grade CDOs, of which $122 million have been fully provided for in the profit and loss account. The remainder of the CDOs have a weighted average credit rating of AAA.

19 per cent of the overall portfolio is in CMBS, of which $159 million is in respect of US CMBS. The weighted average credit rating of CMBS is AA.

36 per cent of the overall portfolio is in Other ABS, which includes securities backed by credit card receivables, bank collateralised loan obligations and student loans, with a weighted credit rating of AAA.

Country Risk

Country Risk is the risk that the Group will be unable to obtain payment from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The GRC is responsible for the Group's country risk limits and delegates the setting and management of the country limits to the Deputy Group Chief Risk Officer and Group Country Risk department.

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 predominantly relates 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.

Cross border exposure to USA, Korea and Hong Kong have increased by more than $3 billion each since 2006. Growth in the US was due to a steady increase in non-US dollar funded lending to US corporates and banks. General business growth in Korea, and in particular an increase in business with Korean counterparties in the Group's key markets outside of Korea, has led to an increase in Korea's cross border exposure. The increase in cross border exposure to Hong Kong was driven by business growth, including some large Corporate Finance transactions, and increased lending to Chinese subsidiaries of Hong Kong domiciled customers.

The following table, based on the Group's internal country risk reporting requirements, shows cross border outstandings where they exceed one per cent of the Group's total assets.

	2007			2006		
	One year or less $million	**Over one year $million**	**Total $million**	One year or less $million	Over one year $million	Total $million
USA	**8,622**	**5,835**	**14,457**	6,900	3,329	10,229
Korea	**6,617**	**4,299**	**10,916**	5,591	2,274	7,865
Hong Kong	**7,681**	**3,043**	**10,724**	5,414	1,783	7,197
India	**6,228**	**3,667**	**9,895**	5,508	1,774	7,282
United Arab Emirates	**4,600**	**3,004**	**7,604**	3,963	1,371	5,334
Singapore	**5,490**	**1,700**	**7,190**	5,786	1,108	6,894
China	**3,634**	**2,041**	**5,675**	2,739	1,292	4,031
Australia	**2,680**	**1,086**	**3,766**	3,425	569	3,994
Switzerland	**2,628**	**1,136**	**3,764**	1,926	519	2,445

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. The objective of the Group's market risk policies and processes is to obtain the best balance of risk and return while meeting our customers' requirements.

Market risk is governed by the GRC, which agrees policies and levels of risk appetite in terms of 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, Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). This is more restrictive than the broader IAS 39 definition, as the FSA only permits certain types of financial instruments or arrangements to be included within the trading book. 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 position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the options' value.

Value at Risk

The Group measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology.

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 Group uses historic simulation as its VaR methodology with an observation period of one year. Historic simulation 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 including the possibility that the historical data may not be the best proxy for future price movements.

VaR models are back tested against actual results to ensure pre-determined levels of statistical accuracy are maintained.

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.

GMR, therefore, complements the VaR measurement by regularly stress testing market risk exposures to highlight potential risk 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 testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

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.

Trading, non-trading and total VaR have increased in 2007 compared to 2006 due to increased market volatility following the sub-prime credit crisis in August 2007. This surfaced in the US sub-prime mortgage market and spilled over into wider global markets. Trading VaR has also increased due to the expansion of the Commodities and Equities trading businesses throughout 2007, and further due to the inclusion of credit spread risk in interest rate risk VaR from August 2007.

Market Risk continued

Trading and Non-trading (VaR at 97.5%, 1 day)

Daily value at risk	2007 Average $million	2007 High $million	2007 Low $million	2007 Actual^ $million	2006 Average $million	2006 High $million	2006 Low $million	2006 Actual^ $million
Interest rate risk*	**12.2**	**19.6**	**7.0**	**17.1**	10.5	13.9	7.6	9.3
Foreign exchange risk	**3.2**	**7.2**	**1.7**	**4.4**	2.6	4.8	1.1	1.5
Commodity risk	**0.6**	**3.5**	**0.2**	**0.6**	–	–	–	–
Equity risk	**0.6**	**1.9**	**–**	**1.4**	–	–	–	–
Total**	**12.9**	**20.0**	**7.5**	**18.6**	10.6	14.0	8.0	10.3

Trading (VaR at 97.5%, 1 day)

Daily value at risk	2007 Average $million	2007 High $million	2007 Low $million	2007 Actual^ $million	2006 Average $million	2006 High $million	2006 Low $million	2006 Actual^ $million
Interest rate risk*	**6.2**	**11.9**	**2.8**	**11.0**	3.5	5.3	2.5	3.9
Foreign exchange risk	**3.2**	**7.2**	**1.7**	**4.4**	2.6	4.1	1.4	1.5
Commodity risk	**0.6**	**3.5**	**0.2**	**0.6**	–	–	–	–
Equity risk	**0.6**	**1.9**	**–**	**1.4**	–	–	–	–
Total**	**7.0**	**12.5**	**3.5**	**12.5**	4.3	5.6	3.1	4.0

* Interest rate risk VaR includes credit spread risk.
** The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.
^ This represents the actual one day VaR as at 31 December.

The highest and lowest VaR are independent and could have occurred on different days.

The average daily income earned from market risk related activities is as follows:

	2007 $million	2006 $million
Interest rate risk	**2.3**	1.8
Foreign exchange risk	**3.0**	2.0
Commodity risk	**0.1**	–
Equity risk	**–**	–
Total	**5.4**	3.8

Non-trading (VaR at 97.5%, 1 day)

Daily value at risk	2007 Average $million	2007 High $million	2007 Low $million	2007 Actual^ $million	2006 Average $million	2006 High $million	2006 Low $million	2006 Actual^ $million
Interest rate risk	**9.5**	**16.8**	**6.5**	**14.7**	9.0	10.7	7.0	8.0

^ This represents the actual one day VaR as at 31 December.

The average daily income earned from non-trading market risk related activities is as follows:

	2007 $million	2006 $million
Interest rate risk	**1.7**	1.3

Interest rate risk from across the non-trading book portfolios is transferred to Global Markets where it is managed by local ALM desks under the supervision of local Asset and Liability Committees. The ALM desks deal in the market in approved financial instruments in order to manage the net interest rate risk subject to approved VaR and risk limits.

VaR and stress tests are applied to non-trading book interest rate exposure in the same way as for the trading book.

Foreign exchange risk on the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency.

Structural foreign exchange risks are not included within the VaR and arise from net investments in non-US dollar currency entities. These are managed separately under the Group Capital Management Committee by Group Treasury.

Equity risk relating to private equity investments is not included within the VaR and is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee.

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. Derivatives are an important risk management tool for banks and their customers because they can be used to manage market price risk. The market

Derivatives continued
risk of all products, including derivatives, is managed in essentially the same way as described above.

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 market price movements.

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 held for hedging purposes.

The Group applies a future exposure methodology to manage counterparty credit exposure associated with derivative transactions.

Hedging
In accounting terms under IAS 39, hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly 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 underlying net asset value of these investments and the risk weighted value of assets and contingent liabilities follow substantially the same exchange rate movements.

The Group may also, under certain individually approved circumstances, enter into 'economic hedges' which do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed.

Liquidity Risk
Liquidity risk is 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 only access these financial resources at excessive cost.

It is the policy of the Group to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. The Group manages liquidity risk both on a short term and medium term basis. In the short term, the focus is on ensuring that the cash flow demands can be met through asset maturities, supported by customer deposits and wholesale raisings where required.

GALCO is the responsible governing body that approves the Group's liquidity management policies. The Liquidity Management Committee ("LMC") receives authority from GALCO and is responsible for setting liquidity limits, proposing liquidity risk policies and practices, assisting in cross-business and cross-geography liquidity discussions and helping establish country balance sheet targets. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by the LMC and in compliance with Group liquidity policies and local regulatory requirements.

Policies and procedures
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 by operating within the liquidity limits set for the country.

The Group liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- The mismatch in local and foreign currency behavioural cash flows;
- The level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Group's local operations;
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources;
- The amount of medium term funding to support the asset portfolio; and
- The amount of local currency funding sourced from foreign currency sources.

In addition, the Group prescribes a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. Each country has to ensure that cash inflows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they are relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by Group Market Risk. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO. Excesses are also reported monthly to LMC and GALCO which provide further oversight.

In addition, regular reports to the ALCO include the following:

- Information on the concentration and profile of debt maturities; and
- Depositor concentration report to monitor reliance on large individual depositors.

The Group has significant levels of marketable securities, principally government securities and bank paper, which can be realised in the event that there is a need for liquidity in a crisis. In addition, each country and the Group maintain a liquidity crisis management plan which is reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management in case of such an event.

Liquidity Risk continued

Primary sources of funding

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. Country ALCO monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. ALCO also reviews balance sheet plans to ensure that asset growth plans are matched by growth in the stable funding base.

The Group maintains access to the inter-bank wholesale funding markets in all major financial centres and countries in which it operates. This seeks to ensure that the Group has flexibility around maturity transformation, has market intelligence, maintains stable funding lines and is a price maker when it performs its interest rate risk management activities.

Liquid assets to total assets ratio

The holdings of liquid assets in the balance sheet reflect the prudent approach that is inherent in the Group's liquidity policies and practices. Whilst liquidity is managed in-country, compliance with these policies and practices results in substantial holdings of liquid assets as a Group. The following shows the ratio of the liquid assets to total assets:

	2007 %	2006 %
Liquid assets* to total assets ratio	23.9	21.7

* Liquid assets is the total of Cash (less restricted balances), net interbank, Treasury Bills and Debt securities less the asset backed securities portfolio.

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") supervises and directs 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.

Group Operational Risk is responsible for setting the Operational Risk policy, defining standards for measurement and for Operational Risk capital calculation. A Group Operational Risk Assurance function, independent from the businesses, is responsible for deploying and assuring the operational risk management framework, and for monitoring the Group's key operational risk exposures. This unit is supported by units within the Wholesale Banking and Consumer Banking businesses who have responsibility for ensuring compliance with policies and procedures in the business, monitoring key operational risk exposures, and the provision of guidance to the respective business areas on operational risk.

Regulatory Risk

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.

Reputational Risk

Reputational risk is the risk of failure to meet the standards of performance or behaviours expected by stakeholders in the way in which business is conducted. It is Group policy that, at all times, the protection of the Group's reputation should take priority over all other activities, including revenue generation.

Reputational risk will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, 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 alert the Group to emerging or thematic risks. The GRRRC also seeks to ensure 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 in-country reporting systems to ensure they are aware 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 management

The Group's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic business and capital plans are drawn up annually covering a three year horizon and approved by the Board. The plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Group to support the strategy. This is integrated with the Group's annual planning process that takes into consideration business growth assumptions across products and geographies and the related impact on capital resources.

The capital plan takes the following into account:

- Regulatory capital requirements;
- Forecast demand for capital to maintain the credit ratings;
- Increases in demand for capital due to business growth, market shocks or stresses;
- Available supply of capital and capital raising options; and
- Internal controls and governance for managing the Group's risk, performance and capital.

The Group uses a capital model to assess the capital demand for material risks, and supports its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital model is a key part of the Group's management disciplines and formed the basis of the Group's submission to the FSA of its Internal Capital Adequacy Assessment Process ("ICAAP") for Basel II.

A strong governance culture and framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Group's Board. The ARC reviews specific risk areas and reviews the issues discussed at the key capital management committees. The GALCO has set internal triggers and target ranges for capital management and oversees adherence with these.

Current compliance with Basel I and the FSA Handbook

The Group's supervisor is the FSA. The capital that the Group is required to hold by the FSA is determined by its balance sheet, off-balance sheet and market risk positions, weighted according to the type of counterparty instrument and collateral held. Further detail on counterparty and market risk positions is included in the Risk Review section on pages 33 to 35.

Local capital is maintained on the basis of host regulator's requirements. Processes are in place to ensure compliance with local regulatory ratios in all entities. The Group has put in place processes and controls to monitor and manage capital adequacy, and no breaches were reported during the year.

The table on page 38 summarises the capital position of the Group. The principal forms of capital are included in the following balances on the consolidated balance sheet: Share capital and reserves (called-up ordinary share capital and preference shares, and eligible reserves), subordinated liabilities (innovative Tier 1 securities and qualifying subordinated liabilities), and loans to banks and customers (portfolio impairment provision).

Movement in capital

Total capital has increased by $6,902 million to $28,727 million compared to 2006. The increase has been primarily driven by increased ordinary and preference share capital, up by $1,144 million largely from a $750 million preference share issue during the year, increased eligible reserves, up by $2,445 million largely due to increased retained earnings, and an increase in qualifying subordinated liabilities, net of amortisation, of $2,884 million following issues of £300 million Lower Tier 2 Step-Up Dated Subordinated Notes, and €700 million and $1 billion of subordinated debt.

Basel II

The Basel Committee on Banking Supervision published a framework for International Convergence of Capital Measurement and Capital Standards ("Basel II"), which replaces the 1988 Basel Accord. Basel II is structured around three 'pillars':

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of capital banks must hold against risks;
- Pillar 2 sets out the key principles for supervisory review of an institution's risk management framework and, ultimately, its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices; and
- Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital; the Standardised Approach, Internal Ratings Based Foundation Approach and the Internal Ratings Based Advanced Approach. Basel II also introduces capital requirements for operational risk for the first time.

The EU Capital Requirements Directive ("CRD") is the means by which Basel II is being implemented in the EU. EU Member States were required to bring implementing provisions into force by 1 January 2007. In the case of the provisions relating to advanced approaches for credit risk and operational risk, implementation becomes available from 1 January 2008. In the UK the CRD is implemented by the FSA through its General Prudential Sourcebook ("GENPRU") and BIPRU.

Transitional provisions mean that, unless firms notify the FSA to the contrary, they continue to apply existing capital calculations until 1 January 2008.

From 1 January 2008 the Group will use the Advanced Internal Ratings Based approach for the measurement of credit risk capital. This approach builds on the Group's risk management practices and is the result of a significant investment in data warehouse and risk models.

The Group applies a VaR model for the measurement of market risk capital in accordance with the scope of the permission to use such a model granted by the FSA. Where the Group's market risk exposures are not approved for inclusion in its VaR model, capital requirements are based on standard rules provided by the regulator which are less risk sensitive.

For the first time the Group will also be required to calculate a new capital charge to cover operational risk. The Group will apply the Standardised Approach for determining the capital requirements for operational risk.

During the transition period, Basel II capital requirements must not be less than 90 per cent of Basel I capital requirements in 2008 reducing to 80 per cent in 2009.

Capital continued

	2007 $million	*2006 $million
Tier 1 capital:		
Called up ordinary share capital and preference shares	**8,915**	7,771
Eligible reserves	**11,382**	8,937
Minority interests	**271**	*209
Innovative Tier 1 securities	**2,338**	*2,262
Less: Restriction on innovative Tier 1 securities	**–**	(355)
Goodwill and other intangible assets	**(6,380)**	*(6,247)
Unconsolidated associated companies	**283**	229
Other regulatory adjustments	**(19)**	(94)
Total Tier 1 capital	**16,790**	12,712
Tier 2 capital:		
Eligible revaluation reserves	**927**	509
Portfolio impairment provision	**536**	*543
Qualifying subordinated liabilities:		
Perpetual subordinated debt	**3,394**	3,368
Other eligible subordinated debt	**8,764**	5,387
Less: Amortisation of qualifying subordinated liabilities	**(1,037)**	(518)
Restricted innovative Tier 1 securities	**–**	*355
Total Tier 2 capital	**12,584**	9,644
Investments in other banks	**(136)**	(211)
Other deductions	**(511)**	(320)
Total capital base	**28,727**	21,825
Banking book:		
Risk weighted assets	**132,942**	*120,018
Risk weighted contingents	**22,531**	21,106
	155,473	141,124
Trading book:		
Market risks	**8,396**	5,834
Counterparty/settlement risks	**7,964**	6,475
Total risk weighted assets and contingents	**171,833**	153,433
Capital ratios – Basel I		
Tier 1 capital	**9.8%**	*8.3%
Total capital	**16.7%**	*14.2%
Total capital ratio – Basel II	**15.2%**	N/A

* Amounts have been restated as explained in note 33 on page 65.

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 $million	2006 Excluding acquisitions $million	2006 Acquisitions $million	2006 Total $million
Interest income		**16,176**	12,810	177	12,987
Interest expense		**(9,911)**	(7,576)	(83)	(7,659)
Net interest income		**6,265**	5,234	94	5,328
Fees and commission income		**3,189**	2,232	43	2,275
Fees and commission expense		**(528)**	(392)	(2)	(394)
Net trading income	3	**1,261**	914	6	920
Other operating income	4	**880**	485	6	491
		4,802	3,239	53	3,292
Operating income		**11,067**	8,473	147	8,620
Staff costs		**(3,949)**	(2,873)	(40)	(2,913)
Premises costs		**(592)**	(439)	(5)	(444)
General administrative expenses		**(1,329)**	(1,144)	(27)	(1,171)
Depreciation and amortisation	5	**(345)**	(249)	(19)	(268)
Operating expenses		**(6,215)**	(4,705)	(91)	(4,796)
Operating profit before impairment losses and taxation		**4,852**	3,768	56	3,824
Impairment losses on loans and advances and other credit risk provisions		**(761)**	(611)	(18)	(629)
Other impairment	6	**(57)**	(15)	–	(15)
Profit/(loss) from associates		**1**	(2)	–	(2)
Profit before taxation		**4,035**	3,140	38	3,178
Taxation	7	**(1,046)**	(812)	(12)	(824)
Profit for the year		**2,989**	2,328	26	2,354

Profit attributable to:	Notes	2007	2006 Excluding acquisitions	2006 Acquisitions	2006 Total
Minority interests	26	**148**	75	1	76
Parent company shareholders		**2,841**	2,253	25	2,278
Profit for the year		**2,989**	2,328	26	2,354
Basic earnings per ordinary share	9	**201.1c**			169.0c
Diluted earnings per ordinary share	9	**198.7c**			167.0c

Paid and proposed dividends per ordinary share:	Notes	**Cents**	Cents
Interim dividend paid	8	**23.12**	20.83
Final proposed dividend*	8	**56.23**	50.21
		79.35	71.04

	Notes	**$million**	$million
Interim dividend paid	8	**324**	277
Final proposed dividend*	8	**793**	695
		1,117	972

* The final dividend will be accounted for in 2008 as explained in note 8 on page 48.

Consolidated Balance Sheet
As at 31 December 2007

	Notes	2007 $million	2006* $million
Assets			
Cash and balances at central banks		**10,175**	7,698
Financial assets held at fair value through profit or loss	11	**22,958**	15,715
Derivative financial instruments	12	**26,204**	13,154
Loans and advances to banks	13	**35,365**	19,724
Loans and advances to customers	13	**154,266**	139,300
Investment securities	15	**55,274**	49,497
Interests in associates		**269**	218
Goodwill and intangible assets		**6,380**	6,247
Property, plant and equipment		**2,887**	2,168
Deferred tax assets		**559**	512
Other assets		**11,011**	8,601
Prepayments and accrued income		**3,857**	3,268
Total assets		**329,205**	266,102
Liabilities			
Deposits by banks	17	**25,880**	26,233
Customer accounts	18	**179,760**	147,382
Financial liabilities held at fair value through profit or loss	19	**14,250**	9,969
Derivative financial instruments	12	**26,270**	13,703
Debt securities in issue	20	**27,137**	23,514
Current tax liabilities		**185**	68
Other liabilities	21	**14,742**	11,331
Accruals and deferred income		**3,429**	3,210
Provisions for liabilities and charges		**38**	45
Retirement benefit obligations	22	**322**	553
Subordinated liabilities and other borrowed funds	23	**15,740**	12,699
Total liabilities		**307,753**	248,707
Equity			
Share capital	24	**705**	692
Reserves	25	**20,146**	16,161
Total parent company shareholders' equity		**20,851**	16,853
Minority interests	26	**601**	542
Total equity		**21,452**	17,395
Total equity and liabilities		**329,205**	266,102

* Amounts have been restated as explained in note 33 on page 65.

Consolidated Statement of Recognised Income and Expense
For the year ended 31 December 2007

	Notes	2007 $million	2006 $million
Exchange differences on translation of foreign operations:			
Net gains taken to equity		**415**	670
Transferred to income on repatriation of branch capital		**(109)**	–
Actuarial gains on retirement benefit obligations	22	**237**	104
Available-for-sale investments:			
Net valuation gains taken to equity		**675**	682
Transferred to income		**(252)**	(190)
Cash flow hedges:			
Net gains taken to equity		**57**	79
Net (losses)/gains transferred to income for the year		**(58)**	20
Taxation on items recognised directly in equity		**(99)**	(131)
Other		**–**	7
Net income recognised in equity		**866**	1,241
Profit for the year		**2,989**	2,354
Total recognised income and expense for the year		**3,855**	3,595
Attributable to:			
Minority interests	26	**196**	111
Parent company shareholders	25	**3,659**	3,484
		3,855	3,595

Consolidated Cash Flow Statement
For the year ended 31 December 2007

Cash flow from operating activities	2007 $million	2006* $million
Profit before taxation	**4,035**	3,178
Adjustment for items not involving cash flow or shown separately:		
Depreciation and amortisation	**345**	268
Gain on disposal of property, plant and equipment	**(1)**	(16)
Gain on disposal of investment securities and loans and receivable financial assets	**(342)**	(190)
Gain arising on initial recognition of Visa Inc. shares	**(107)**	–
Writedowns relating to asset backed securities	**87**	–
Pension cost for defined benefit schemes	**110**	96
Movement in fair value hedges on available-for-sale assets	**(21)**	(5)
Amortisation of discounts and premiums of investment securities	**(259)**	(257)
Impairment losses on loans and advances and other credit risk provisions	**761**	629
Other impairment	**57**	15
Recoveries of acquisition fair values and discount unwind	**(164)**	(158)
	466	382
Net (decrease)/increase in derivative financial instruments	**(466)**	45
Net increase in debt securities, treasury bills and equity shares held at fair value through profit or loss	**(3,691)**	(4,259)
Net increase in loans and advances to banks and customers	**(14,983)**	(11,664)
Increase in prepayments and accrued income	**(519)**	(901)
Net increase in deposits from banks, customer accounts and debt securities in issue	**36,135**	16,914
Increase in accruals and deferred income	**289**	786
Net increase/(decrease) in other accounts	**(1,880)**	4,408
	14,885	5,329
Interest expense on subordinated liabilities	**811**	643
Net return from defined benefit schemes	**16**	47
UK and overseas taxes paid	**(1,097)**	(903)
Net cash from operating activities	**19,116**	8,676
Net cash flows from investing activities		
Purchase of property, plant and equipment	**(471)**	(245)
Disposal of property, plant and equipment	**22**	40
Acquisition of investment in subsidiaries, net of cash acquired	**(85)**	(937)
Acquisition of investment securities	**(78,292)**	(71,115)
Disposal and maturity of investment securities	**74,457**	63,896
Net cash used in investing activities	**(4,369)**	(8,361)
Net cash flows from financing activities		
Issue of ordinary and preference share capital	**861**	2,070
Purchase of own shares	**(15)**	(9)
Exercise of share options through ESOP	**39**	158
Redemption of preference share capital	**–**	(328)
Interest paid on subordinated liabilities	**(737)**	(562)
Gross proceeds from issue of subordinated liabilities	**3,051**	1,591
Repayment of subordinated liabilities	**(505)**	(390)
Dividends paid to minority interests and preference shareholders	**(148)**	(80)
Dividends paid to ordinary shareholders	**(573)**	(496)
Net cash from financing activities	**1,973**	1,954
Net increase in cash and cash equivalents	**16,720**	2,269
Cash and cash equivalents at beginning of year	**38,161**	35,226
Effect of exchange rate movements on cash and cash equivalents	**457**	666
Cash and cash equivalents at end of year (note 27)	**55,338**	38,161

* Amounts have been re-presented as explained in note 33 on page 65.

1. Basis of preparation

The Group financial statements consolidate those of Standard Chartered PLC (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 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").

The Group has retrospectively adopted IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives' and IFRIC 10 'Interim Financial Reporting and Impairment', none of which had an impact on the Group's consolidated financial statements.

The Group has also adopted IFRS 7 'Financial Instruments: Disclosures' and the Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' and the disclosures required will be presented in the 2007 Annual Report.

The balance sheet at 31 December 2006 has been restated as explained in note 33 on page 65 to reflect the revised fair values of the assets and liabilities acquired on the acquisitions of Union and Hsinchu. Certain items in the cash flow statement for the year ended 31 December 2006 have been re-presented as explained in note 33.

A summary of the Group's significant accounting policies will be included in the 2007 Annual Report.

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 geographic segments, classified by the location of the customer.

By Class of Business

	2007				2006			
	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	**(77)**	**77**	**–**	**–**	(75)	75	–	–
Net interest income	**4,194**	**2,071**	**–**	**6,265**	3,545	1,783	–	5,328
Other income	**1,689**	**3,095**	**18**	**4,802**	1,214	2,065	13	3,292
Operating income	**5,806**	**5,243**	**18**	**11,067**	4,684	3,923	13	8,620
Operating expenses	**(3,393)**	**(2,814)**	**(8)**	**(6,215)**	(2,641)	(2,151)	(4)	(4,796)
Operating profit before impairment losses and taxation	**2,413**	**2,429**	**10**	**4,852**	2,043	1,772	9	3,824
Impairment (losses)/releases on loans and advance and other credit risk provisions	**(736)**	**(25)**	**–**	**(761)**	(721)	92	–	(629)
Other impairment	**–**	**(57)**	**–**	**(57)**	–	(15)	–	(15)
Profit/(loss) from associates	**–**	**–**	**1**	**1**	–	–	(2)	(2)
Profit before taxation	**1,677**	**2,347**	**11**	**4,035**	1,322	1,849	7	3,178
Total assets employed**	**90,238**	**238,408**	***559**	**329,205**	86,902	178,688	*512	266,102
Total liabilities employed	**120,213**	**187,355**	***185**	**307,753**	107,165	141,474	*68	248,707
Total risk weighted assets and contingents**	**63,516**	**108,317**	**–**	**171,833**	60,380	93,053	–	153,433
Other segment items:								
Capital expenditure	**418**	**208**	**–**	**626**	209	150	–	359
Depreciation	**136**	**46**	**–**	**182**	100	35	–	135
Amortisation of intangible assets	**68**	**95**	**–**	**163**	52	81	–	133

* As required by IAS 14, tax balances are not allocated.

** Amounts have been restated as explained in note 33 on page 65. In addition, certain assets have been reallocated between Consumer Banking and Wholesale Banking to present on a consistent basis.

2. Segmental Information continued

By geographic segment

The Group manages its business segments on a global basis. The operations are based in nine main geographic areas. The UK is the home country of the parent.

	2007									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	#Americas UK & Europe $million	Total $million
Internal income	(81)	119	11	(58)	16	23	(15)	20	(35)	–
Net interest income	1,288	182	225	1,289	1,118	608	873	444	238	6,265
Fees and commissions income, net	539	233	83	227	466	353	436	194	130	2,661
Net trading income	180	80	63	(72)	330	145	100	121	314	1,261
Other operating income	142	278	77	178	171	179	34	16	(195)	880
Operating income	2,068	892	459	1,564	2,101	1,308	1,428	795	452	11,067
Operating expenses	(825)	(430)	(185)	(1,146)	(1,213)	(528)	(694)	(468)	(726)	(6,215)
Operating profit before impairment losses and taxation	1,243	462	274	418	888	780	734	327	(274)	4,852
Impairment (losses)/releases on loans and advances and other credit risk provisions	(50)	(16)	(38)	(94)	(318)	(90)	(143)	(27)	15	(761)
Other impairment	–	–	–	–	–	–	–	(2)	(55)	(57)
Profit/(loss) from associates	–	–	–	–	2	–	–	–	(1)	1
Profit before taxation	1,193	446	236	324	572	690	591	298	(315)	4,035
Loans and advances to customers – average	23,712	14,897	9,518	41,962	23,545	7,611	10,679	2,437	17,059	151,420
Net interest margins (%)	2.3	1.0	1.8	2.1	2.8	4.3	4.1	5.6	0.2	2.5
Loans and advances to customers – period end	23,364	17,172	10,027	40,229	26,048	7,657	12,646	3,330	16,509	156,982
Loans and advances to banks – period end	15,156	2,531	928	1,504	4,866	552	1,406	371	10,365	37,679
Total assets employed*	61,348	39,362	14,614	67,246	55,890	23,209	28,617	11,132	85,890	387,308
Total risk weighted assets and contingents	25,330	15,008	5,324	37,167	26,024	12,377	16,104	3,927	37,524	178,785
Capital expenditure	39	131	9	53	116	138	88	45	7	626

* Total assets employed includes intra-group items of $58,662 million and excludes deferred tax assets of $559 million.

\# Americas, UK & Europe was previously called Americas, UK & Group Head Office. The business captured within this segment has not been changed. The title has been revised to more appropriately describe the segment.

2. Segmental Information continued

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	**Americas UK & Europe $million**	Total $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)/profit 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 margin (%)	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	22,858	6,242	10,509	2,536	12,458	140,494
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*,**	49,845	25,400	11,849	64,178	46,886	14,386	18,118	7,794	65,918	304,374
Total risk weighted assets and contingents	23,784	13,681	5,315	35,330	24,874	8,450	13,564	3,287	28,282	156,567
Capital expenditure	78	65	3	35	49	22	37	13	57	359

* Amounts have been restated as explained in note 33 on page 65.
** Total assets employed includes intra-group items of $38,784 million and excludes deferred tax assets of $512 million.

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 average 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. The distribution of central expenses is phased in over two years, based on an estimate of central management costs associated with the acquisition.

In 2007, corporate items not allocated to businesses relate to profits on disposal of businesses, pre-incorporation costs in China and profits from associates.

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 $6,952 million (2006: $3,134 million) of balances which are netted in calculating capital ratios.

Capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by acquired entities.

2. Segmental Information continued

The following tables set out the structure of the Group's deposits by principal geographic areas as at 31 December 2007 and 31 December 2006.

	2007									
	Asia Pacific									
	Hong Kong $million	**Singapore $million**	**Malaysia $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Europe $million**	**Total $million**
Non interest bearing current and demand accounts	**3,838**	**2,310**	**639**	**91**	**1,818**	**2,569**	**2,915**	**1,768**	**1,189**	**17,137**
Interest bearing current and demand accounts	**22,971**	**8,062**	**2,598**	**13,287**	**18,658**	**1,843**	**5,600**	**2,784**	**7,730**	**83,533**
Time deposits	**21,734**	**10,892**	**6,608**	**12,172**	**19,529**	**4,757**	**6,929**	**1,380**	**20,912**	**104,913**
Other deposits	**32**	**20**	**208**	**1,223**	**815**	**317**	**593**	**452**	**1,938**	**5,598**
Total	**48,575**	**21,284**	**10,053**	**26,773**	**40,820**	**9,486**	**16,037**	**6,384**	**31,769**	**211,181**
Deposits by banks	**1,128**	**1,548**	**883**	**6,964**	**5,464**	**585**	**2,039**	**568**	**9,406**	**28,585**
Customer accounts	**47,447**	**19,736**	**9,170**	**19,809**	**35,356**	**8,901**	**13,998**	**5,816**	**22,363**	**182,596**
	48,575	**21,284**	**10,053**	**26,773**	**40,820**	**9,486**	**16,037**	**6,384**	**31,769**	**211,181**
Debt securities in issue	**545**	**2,065**	**792**	**19,701**	**2,830**	**1,556**	**22**	**141**	**4,501**	**32,153**
Total	**49,120**	**23,349**	**10,845**	**46,474**	**43,650**	**11,042**	**16,059**	**6,525**	**36,270**	**243,334**

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $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	16,904	4,821	1,002	15,274	16,545	1,456	2,985	1,585	5,529	66,101
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

3. Net Trading Income

	2007 $million	2006 $million
Gains less losses on instruments held for trading:		
Foreign currency	**862**	645
Trading securities	**102**	109
Interest rate derivatives	**257**	151
Credit and other derivatives	**39**	40
Gains less losses from fair value hedged items and hedging instruments	**(3)**	14
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	**44**	–
Financial liabilities designated at fair value through profit or loss	**(37)**	(37)
Derivatives managed with financial instruments designated at fair value through profit or loss	**(3)**	(2)
	1,261	920

4. Other Operating Income

	2007 $million	2006 $million
Other operating income includes:		
Gains less losses on available-for-sale financial assets:		
On disposal	**339**	185
Writedowns on asset backed securities	**(87)**	–
Gains less losses on disposal of loan and receivable financial assets	**3**	5
Dividend income	**279**	77
Gains arising on assets fair valued at acquisition	**98**	106
Recognition of profit on Visa shares	**107**	–
Income on repatriation of branch capital	**109**	–
Gain on effective part disposal of Pakistan branches	**–**	17
Profit on part disposal of merchant acquiring business	**15**	–
Net profit on sale of businesses	**3**	–

5. Depreciation and Amortisation

	2007 $million	2006 $million
Premises	**78**	57
Equipment	**104**	78
Intangibles:		
Software	**86**	81
Acquired on business combinations	**77**	52
	345	268

6. Other Impairment

	2007 $million	2006 $million
Intangible assets	**17**	–
Impairment losses on available-for-sale financial assets	**40**	15
	57	15

Impairment of intangible assets consists of the write-off of a customer relationship asset relating to Whistlejacket. Impairment losses on available-for-sale financial assets includes $35 million (2006: $nil million) impairment on asset backed securities.

7. Taxation

Analysis of taxation charge in the year:

	2007 $million	2006 $million
The charge for taxation based upon the profits for the year comprises:		
United Kingdom corporation tax at 30% (2006: 30%):		
Current tax on income for the year	**385**	229
Adjustments in respect of prior periods (including double taxation relief)*	**(18)**	(244)
Double taxation relief	**(385)**	(208)
Foreign tax:		
Current tax on income for the year	**1,258**	868
Adjustments in respect of prior periods*	**13**	33
Total current tax	**1,253**	678
Deferred tax:		
Origination/reversal of temporary differences	**(167)**	57
Adjustments in respect of prior periods*	**(40)**	89
Total deferred tax	**(207)**	146
Tax on profits on ordinary activities	**1,046**	824
Effective tax rate	**25.9%**	25.9%

* Re-presented to identify separately all adjustments in respect of prior periods for United Kingdom, and foreign and deferred taxation.

Overseas taxation includes taxation on Hong Kong profits of $195 million (2006: $166 million) provided at a rate of 17.5 per cent (2006: 17.5 per cent) on the profits assessable in Hong Kong. With effect from 1 April 2008, the United Kingdom corporation tax rate is to be reduced from 30 per cent to 28 per cent. As a result, deferred tax assets and liabilities have been re-measured at the reduced tax rate where the asset or liability is settled after 1 April 2008.

8. Dividends

	2007		2006	
Ordinary Equity Shares	Cents per share	$million	Cents per share	$million
Final dividend declared and paid during the period	**50.21**	**695**	45.06	595
Interim dividend declared and paid during the period	**23.12**	**324**	20.83	277
	73.33	**1,019**	65.89	872

Preference Shares		2007 $million	2006 $million
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each*	**15**	14
	8 1/4 per cent preference shares of £1 each*	**16**	15
Non-cumulative redeemable preference shares:	8.9 per cent preference shares of $5 each	**–**	22
	6.409 per cent preference shares of $5 each	**28**	3

* Dividends on these preference shares are treated as interest expense and accrued accordingly.

Dividends on ordinary equity and redeemable preference shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years. The 2007 final ordinary equity share dividend of 56.23 cents per share ($793 million) will be paid in either sterling, Hong Kong dollars or US dollars on 16 May 2008 to shareholders on the UK register of members at the close of business in the UK (5.00 pm GMT) on 7 March 2008, 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 7 March 2008. 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 this dividend will be sent to shareholders on or around 27 March 2008.

9. Earnings Per Ordinary Share

	2007			2006		
	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	**2,813**	**1,398,747**	**201.1**	2,253	1,332,985	169.0
Effect of dilutive potential ordinary shares:						
Options	**–**	**17,048**		–	16,050	
Diluted earnings per ordinary share	**2,813**	**1,415,795**	**198.7**	2,253	1,349,035	167.0

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.

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.

	2007 $million	2006 $million
Profit attributable to ordinary shareholders*	**2,813**	2,253
Premium and costs paid on repurchase of subordinated liabilities	**–**	4
Amortisation of intangible assets arising on business combinations	**77**	52
Profit on sale of property, plant and equipment	**(1)**	(16)
Gain on transfer of branches	**–**	(17)
Pre-incorporation costs in China	**8**	4
Net profit on sale of businesses	**(3)**	–
Profit on partial disposal of merchant acquiring business	**(15)**	–
Foreign exchange gain on repatriation of branch capital	**(109)**	–
Impairment of customer relationship intangible	**17**	–
Tax on normalised items	**(23)**	(5)
Normalised earnings	**2,764**	2,275
Normalised basic earnings per ordinary share	**197.6c**	170.7c
Normalised diluted earnings per ordinary share	**195.2c**	168.6c

* The profit amounts represent the profit attributable to ordinary shareholders and is therefore after the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 8).

10. 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, loans and receivables, and for financial liabilities, amortised cost. 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 which are classified as trading and are disclosed in note 12) 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	**2,314**	**–**	**–**	**35,365**	**–**	**37,679**
Loans and advances to customers	**1,978**	**738**	**–**	**154,266**	**–**	**156,982**
Treasury bills and other eligible bills	**2,942**	**453**	**11,667**	**–**	**–**	**15,062**
Debt securities	**13,829**	**334**	**38,098**	**2,719**	**100**	**55,080**
Equity shares	**108**	**262**	**2,690**	**–**	**–**	**3,060**
Total at 31 December 2007	**21,171**	**1,787**	**52,455**	**192,350**	**100**	**267,863**
Loans and advances to banks	1,340	–	–	19,724	–	21,064
Loans and advances to customers*	1,000	194	–	139,300	–	140,494
Treasury bills and other eligible bills	2,722	696	12,522	–	–	15,940
Debt securities*	8,906	695	32,711	2,649	137	45,098
Equity shares	162	–	1,478	–	–	1,640
Total at 31 December 2006	14,130	1,585	46,711	161,673	137	224,236

* Amounts have been restated as explained in note 33 on page 65.

	Trading $million	Designated at fair value through profit or loss $million	Amortised cost $million	Total $million
Due to banks	**2,532**	**173**	**25,880**	**28,585**
Customer accounts	**772**	**2,064**	**179,760**	**182,596**
Debt securities in issue	**2,665**	**2,351**	**27,137**	**32,153**
Short positions	**3,693**	**–**	**–**	**3,693**
Total liabilities at 31 December 2007	**9,662**	**4,588**	**232,777**	**247,027**
Due to 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

11. 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 IAS 39 are met by matching the principal terms of interest rate swaps to the corresponding loans and debt securities.

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.

	2007			2006		
	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	**2,314**	**–**	**2,314**	1,340	–	1,340
Loans and advances to customers	**1,978**	**738**	**2,716**	1,000	194	1,194
Treasury bills and other eligible bills	**2,942**	**453**	**3,395**	2,722	696	3,418
Debt securities	**13,829**	**334**	**14,163**	8,906	695	9,601
Equity shares	**108**	**262**	**370**	162	–	162
	21,171	**1,787**	**22,958**	14,130	1,585	15,715

Debt securities

	2007 $million	2006 $million
Issued by public bodies:		
Government securities	**5,344**	2,321
Other public sector securities	**30**	45
	5,374	2,366
Issued by banks:		
Certificates of deposit	**479**	405
Other debt securities	**2,672**	2,082
	3,151	2,487
Issued by corporate entities and other issuers:		
Other debt securities	**5,638**	4,748
Total debt securities	**14,163**	9,601
Of which:		
Listed on a recognised UK exchange	**536**	418
Listed elsewhere	**5,641**	2,819
Unlisted	**7,986**	6,364
	14,163	9,601

Equity shares

Listed elsewhere	**3**	36
Unlisted	**367**	126
Total equity shares	**370**	162

12. 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 classified as trading and 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 the effective portion of 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.

The Group 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 in the ordinary course of business they are not intended to be settled net.

	2007			2006		
Total derivatives	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	775,663	7,376	7,852	434,569	3,805	4,165
Currency swaps and options	512,833	8,955	8,516	295,845	4,698	4,793
	1,288,496	16,331	16,368	730,414	8,503	8,958
Interest rate derivative contracts:						
Swaps	979,727	8,473	8,365	653,283	4,353	4,348
Forward rate agreements and options	166,563	556	745	94,244	138	195
Exchange traded futures and options	322,520	336	282	260,182	42	47
	1,468,810	9,365	9,392	1,007,709	4,533	4,590
Credit derivative contracts	21,035	165	160	22,195	49	70
Equity and stock index options	1,057	58	106	699	18	44
Commodity derivative contracts	16,971	285	244	2,469	51	41
Total derivatives	2,796,369	26,204	26,270	1,763,486	13,154	13,703

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 IAS 39 have been met. The table below lists the types of derivatives that the Group holds for hedge accounting.

	2007			2006		
Derivatives held for hedging	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Swaps	13,392	352	161	10,570	589	464
	13,392	352	161	10,570	589	464
Derivatives designated as cash flow hedges:						
Swaps	5,120	35	13	5,596	17	21
Forward foreign exchange contracts	1,414	37	19	921	61	2
	6,534	72	32	6,517	78	23
Total derivatives held for hedging	19,926	424	193	17,087	667	487

13. Loans and Advances

	2007		2006	
	Loans to banks $million	**Loans to customers $million**	Loans to banks $million	*Loans to customers $million
Loans and advances	**37,682**	**158,788**	21,074	142,709
Individual impairment provision	**(2)**	**(1,271)**	(9)	(1,673)
Portfolio impairment provision	**(1)**	**(535)**	(1)	(542)
	37,679	**156,982**	21,064	140,494
Of which: loans and advances held at fair value through profit or loss	**(2,314)**	**(2,716)**	(1,340)	(1,194)
	35,365	**154,266**	19,724	139,300

* Amounts have been restated as explained in note 33 on page 65.

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 $22.6 billion (2006: $24.0 billion) and Hong Kong residents of approximately $11.8 billion (2006: $11.2 billion).

The following table shows the movement in impairment provisions for 2007 and 2006:

	2007 Total $million	*2006 Total $million
At 1 January	**2,225**	1,754
Exchange translation differences	**28**	74
Acquisitions	**–**	743
Amounts written off	**(1,183)**	(962)
Recoveries of acquisition fair values	**(98)**	(106)
Recoveries of amounts previously written off	**139**	128
Discount unwind	**(66)**	(52)
Other	**10**	12
New provisions	**1,352**	1,131
Recoveries/provisions no longer required	**(598)**	(497)
Net charge against profit**	**754**	634
Provisions held at 31 December***	**1,809**	2,225

* Amounts have been restated as explained in note 33 on page 65.

** The net charge of $754 million (2006: $634 million) comprises $769 million (2006: $604 million) individual impairment charge and $(15) million (2006: $30 million) portfolio impairment (release)/charge. It excludes provision releases of $3 million (2006: $11 million) for credit commitments and impairment charges of $10 million (2006: $6 million) relating to debt securities designated as loans and receivables.

*** The provision of $1,809 million held at 31 December 2007 (2006: $2,225 million) comprises $1,273 million (2006: $1,682 million) individual impairment provision and $536 million (2006: $543 million) portfolio impairment provision.

14. Individually Impaired Loans and Advances

	2007			2006		
	Consumer Banking $million	**Wholesale Banking $million**	**Total $million**	Consumer Banking $million	Wholesale Banking $million	Total $million
Individually impaired loans	**1,172**	**990**	**2,162**	1,761	1,368	3,129
Individual impairment provisions	**(655)**	**(618)**	**(1,273)**	(852)	(830)	(1,682)
Net impaired loans	**517**	**372**	**889**	909	538	1,447

Net impaired loans within Wholesale Banking includes individually impaired loans to banks of $10 million (2006: $18 million) and individual impairment provisions on these loans of $2 million (2006: $9 million).

15. Investment Securities

	Held-to-maturity $million	**Available-for-sale $million**	**Loans and receivables $million**	**Total $million**
Treasury and other eligible bills	**–**	**11,667**	**–**	**11,667**
Debt securities	**100**	**38,098**	**2,719**	**40,917**
Equity shares	**–**	**2,690**	**–**	**2,690**
At 31 December 2007	**100**	**52,455**	**2,719**	**55,274**
Treasury and other eligible bills	–	12,522	–	12,522
Debt securities*	137	32,711	2,649	35,497
Equity shares	–	1,478	–	1,478
At 31 December 2006*	137	46,711	2,649	49,497

* Amounts have been restated as explained in note 33 on page 65.

	2007					
	Debt Securities					
	Held-to-maturity $million	**Available-for-sale $million**	**Loans and receivables $million**	**Equity shares $million**	**Treasury bills $million**	**Total $million**
Issued by public bodies:						
Government securities	**100**	**12,658**	**–**			
Other public sector securities	**–**	**1,008**	**–**			
	100	**13,666**	**–**			
Issued by banks:						
Certificates of deposit	**–**	**6,248**	**2,175**			
Other debt securities	**–**	**12,904**	**18**			
		19,152	**2,193**			
Issued by corporate entities and other issuers:						
Other debt securities	**–**	**5,280**	**526**			
Total debt securities	**100**	**38,098**	**2,719**			
Listed on a recognised UK exchange	**–**	**3,663**	**–**	**58**	**–**	**3,721**
Listed elsewhere	**77**	**16,060**	**–**	**1,842**	**6,346**	**24,325**
Unlisted	**23**	**18,375**	**2,719**	**790**	**5,321**	**27,228**
	100	**38,098**	**2,719**	**2,690**	**11,667**	**55,274**
Market value of listed securities	**95**	**19,723**	**–**	**1,900**	**6,346**	**28,064**

15. **Investment Securities** continued

	2006					
	Debt Securities					
	Held-to-maturity $million	*Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $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	–	2,991	191			
Total debt securities	137	32,711	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	15,849	2,517	645	5,495	24,530
	137	32,711	2,649	1,478	12,522	49,497
Market value of listed securities	109	16,862	130	833	7,027	24,961

* Amounts have been restated as explained in note 33 on page 65.

Equity shares largely comprise investments in corporates.

The change in the carrying amount of investment securities comprised:

	2007				2006			
	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	**35,497**	**1,478**	**12,522**	**49,497**	26,710	954	10,199	37,863
Exchange translation differences	**846**	**20**	**171**	**1,037**	949	9	528	1,486
Acquisitions	**–**	**–**	**–**	**–**	1,155	21	842	2,018
Additions	**53,574**	**1,248**	**23,470**	**78,292**	47,411	328	23,376	71,115
Maturities and disposals	**(48,850)**	**(970)**	**(24,637)**	**(74,457)**	(40,909)	(337)	(22,650)	(63,896)
Provisions	**(45)**	**(3)**	**(2)**	**(50)**	(6)	(4)	(16)	(26)
Changes in fair value (including the effect of fair value hedging)	**(205)**	**920**	**(19)**	**696**	142	510	28	680
Amortisation of discounts and premiums	**100**	**(3)**	**162**	**259**	45	(3)	215	257
At 31 December	**40,917**	**2,690**	**11,667**	**55,274**	35,497	1,478	12,522	49,497

* Amounts have been restated as explained in note 33 on page 65.

Treasury bills and other eligible bills include $391 million (2006: $393 million) of bills sold subject to sale and repurchase transactions. Debt securities include $1,830 million (2006: $896 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2007, unamortised premiums on debt securities held for investment purposes amounted to $46 million (2006: $39 million) and unamortised discounts amounted to $186 million (2006: $112 million).

Income from listed equity shares amounted to $9 million (2006: $4 million) and income from unlisted equity shares amounted to $270 million (2006: $73 million).

16. Business Combinations

2007 acquisitions

On 5 October 2007, the Group acquired 100 per cent of the share capital of Pembroke Group Limited, an aircraft leasing, financing and management company. On 3 December 2007, the Group acquired 100 per cent of the share capital of Harrison Lovegrove & Co. Limited, an oil and gas advisory boutique company. On 5 December 2007, the Group acquired 80 per cent of A Brain Co. Limited, a Korean fund administration company. None of these acquisitions were individually material.

The acquired businesses contributed operating income of $7 million and loss before tax of $2 million to the Group from the date of their acquisition to 31 December 2007.

If the acquisition had occurred on 1 January 2007, the operating income of the Group would have been approximately $11,132 million and profit before taxation would have been approximately $4,043 million.

During 2007, the Group acquired the remaining minority of Hsinchu for a consideration of $43 million and generated additional goodwill of $34 million.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid	151
– loan notes issued	5
– deferred consideration	65
– direct costs relating to the acquisition	3
Total purchase consideration	224
Fair value of net assets acquired	187
Goodwill	37

Deferred consideration is payable between 6 months and 36 months after the date of acquisition.

Goodwill arising on these acquisitions is attributable to the synergies expected to arise and to the value of the workforce in place which is not recognised separately.

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	66	66
Loans and advances to customers	2	2
Intangibles other than goodwill	63	–
Property, plant and equipment	189	152
Deferred tax assets	4	4
Other assets	28	28
Total assets	352	252
Other liabilities	162	162
Total liabilities	162	162
Minority interest	3	–
Net assets acquired	187	90
Purchase consideration settled in cash	151	
Cash and cash equivalents in subsidiaries acquired	(66)	
Cash outflow on acquisition	85	

* 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 twelve months of the acquisition date.

The intangible assets acquired as part of the acquisitions can be analysed as follows:

	$million
Brand names	6
Customer relationships	55
Capitalised software	2
Total	63

16. Business Combinations continued

2006 acquisitions

On 5 September 2006, the Group acquired 95.4 per cent of the share capital of Union, following which on 30 December 2006, the business and assets of the Standard Chartered Bank branch in Pakistan was transferred into a new entity, Standard Chartered (Pakistan) Limited, generating additional goodwill of $17 million and increasing the Group's shareholding to 99 per cent.

On 19 October 2006, the Group acquired a controlling interest of 95.4 per cent of the share capital of Hsinchu. Subsequent to this, the Group acquired a further 0.8 per cent of Hsinchu through share purchase to take its overall share to 96.2 per cent at 31 December 2006.

The assets and liabilities arising from the acquisitions are as follows:

	Union		Hsinchu	
	Fair value* $million	Acquiree's carrying amount $million	Fair value* $million	Acquiree's carrying amount $million
Cash and balances at central banks	148	148	481	481
Financial assets held at fair value through profit or loss	–	–	563	563
Loans and advances to banks	104	104	440	440
Loans and advances to customers	1,118	1,206	9,225	9,352
Investment securities	404	411	1,614	1,609
Intangibles other than goodwill	55	3	122	–
Property, plant and equipment	44	28	287	307
Deferred tax assets	43	1	162	151
Other assets	48	61	212	213
Total assets	1,964	1,962	13,106	13,116
Deposits by banks	425	425	988	988
Customer accounts	1,320	1,309	10,709	10,709
Debt securities in issue	–	–	532	532
Other liabilities	97	96	48	41
Retirement benefit obligations	–	–	116	27
Subordinated liabilities and other borrowed funds	40	41	545	545
Total liabilities	1,882	1,871	12,938	12,842
Minority interest	7	7	8	10
Net assets acquired	75	84	160	264
Purchase consideration settled in cash	489		1,201	
Cash and cash equivalents in subsidiary acquired	(164)		(589)	
Cash outflow on acquisition	325		612	
Total purchase consideration	489		1,201	
Fair value of net assets acquired	75		160	
Goodwill	414		1,041	
Intangible assets acquired:				
Brand names	6		24	
Customer relationships	13		43	
Core deposits	33		55	
Capitalised software	3		–	
Total	55		122	

* During 2007 certain of the provisionally determined fair value amounts have been finalised and in accordance with IFRS 3 Business Combinations, the adjustments have been made as at the date of acquisition and the 2006 balance sheet amounts restated. Details of these adjustments are explained in note 33 on page 65.

Goodwill arising on the acquisitions of Union and Hsinchu is attributable to the significant synergies expected to arise from their development within the Group and to those intangibles which are not recognised separately, such as the branch networks and,for Hsinchu, a workforce in place with Mandarin speaking capabilities.

17. Deposits by Banks

	2007 $million	2006 $million
Deposits by banks	**25,880**	26,233
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 19)	**2,705**	1,889
	28,585	28,122

18. Customer Accounts

	2007 $million	2006 $million
Customer accounts	**179,760**	147,382
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 19)	**2,836**	1,906
	182,596	149,288

19. Financial Liabilities Held at Fair Value through Profit or Loss

	2007			2006		
	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
Deposits by banks	**2,532**	**173**	**2,705**	1,286	603	1,889
Customer accounts	**772**	**2,064**	**2,836**	485	1,421	1,906
Debt securities in issue	**2,665**	**2,351**	**5,016**	1,514	1,771	3,285
Short positions	**3,693**	**–**	**3,693**	2,889	–	2,889
	9,662	**4,588**	**14,250**	6,174	3,795	9,969

20. Debt Securities in Issue

	2007			2006		
	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	**8,502**	**18,635**	**27,137**	10,939	12,575	23,514
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 19)	**951**	**4,065**	**5,016**	1,154	2,131	3,285
	9,453	**22,700**	**32,153**	12,093	14,706	26,799

21. Other Liabilities

Other liabilities include Hong Kong currency notes in circulation of $2,862 million (2006: $2,605 million) which are secured by the government of Hong Kong certificates of indebtedness of the same amount included in other assets.

22. Retirement Benefit Obligations

Retirement benefit obligations comprise:

	2007 $million	2006* $million
Total market value of assets	**2,488**	2,339
Present value of the schemes' liabilities	**(2,801)**	(2,880)
Defined benefit schemes obligation	**(313)**	(541)
Defined contribution schemes obligation	**(9)**	(12)
Net book amount	**(322)**	(553)

* Amounts have been restated as explained in note 33 on page 65.

Retirement benefit charge comprises:

	2007 $million	2006 $million
Defined benefit schemes	**110**	96
Defined contribution schemes	**103**	70
	213	166

The pension cost for defined benefit schemes was:

	2007 $million	2006 $million
Current service cost	**95**	80
Past service cost	**7**	9
(Gain)/loss on settlement and curtailments	**(3)**	1
Expected return on pension scheme assets	**(132)**	(116)
Interest on pension scheme liabilities	**143**	122
Total charge to profit before deduction of tax	**110**	96

Actual less expected return on assets	**(30)**	(50)
Experience gain on liabilities	**(207)**	(54)
Total gain directly recognised in Statement of Recognised Income and Expense before tax	**(237)**	(104)
Deferred taxation	**71**	38
Total gain after tax	**(166)**	(66)

23. Subordinated Liabilities and Other Borrowed Funds

	2007 $million	2006 $million
Subordinated liabilities and other borrowed funds	**15,740**	12,699

All subordinated liabilities 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, $10,166 million is at fixed interest rates (2006: $5,118 million).

On 12 April 2007, Standard Chartered Bank (Hong Kong) Limited issued Lower Tier 2 capital in the form of $300 million Floating Rate Notes, which have a maturity of 10 years, with an issuer's call option after five years.

On 26 April 2007, the Group issued £300 million Lower Tier 2 Step-Up Dated Subordinated notes, which have a maturity of 11 years, with an issuer's call option after six years.

On 26 September 2007, the Group issued $1,000 million Lower Tier 2 Notes with a coupon of 6.4 per cent maturing September 2017, and €700 million Lower Tier 2 Notes with a coupon of 5.875 per cent, maturing September 2017.

On 15 November 2007 Standard Chartered Bank Malaysia Berhad issued MYR500 million Lower Tier 2 Subordinated Unsecured Floating Rate Notes due 2017, with an issuer's call option after 5 years.

On 27 November 2007, Standard Chartered Bank Botswana Limited issued BWP75 million Subordinated Unsecured Floating Rate Notes due 2017, with an issuer's call option after five years.

24. Share Capital

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2006	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**
Capitalised on scrip dividend	**16**	**8**	**–**	**8**
Shares issued	**10**	**5**	**–**	**5**
At 31 December 2007	**1,410**	**705**	**–**	**705**

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 $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 proceeds of the issue of ordinary shares was used to acquire Hsinchu. The placing used a cash box structure involving a Jersey subsidiary ("JerseyCo") which was 89 per cent owned by the Company prior to the transaction. In return for an issue of shares by the Company to the placees, the net proceeds of the placing were paid to JerseyCo. Pursuant to the issue of those shares, the Company acquired the remaining share capital of JerseyCo, being all of its redeemable preference shares and the 11 per cent of the ordinary shares it did not own. Under this structure merger relief applies under section 131 of the Companies Act 1985 which provides relief from the requirements under section 130 of the Companies Act 1985 to create a share premium account. JerseyCo then redeemed its redeemable shares in exchange for the placing proceeds.

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 in accordance with the terms of the shares at their paid up amount (which includes premium) and have discretionary dividend payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

On 10 May 2007, the Company issued 12,765,274 new ordinary shares instead of the 2006 final dividend. On 10 October 2007, the Company issued 3,163,466 new ordinary shares instead of the 2007 interim dividend.

On 25 May 2007, 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 in accordance with the terms of the shares at the paid up amount (which includes premium) and have discretionary dividend payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

During the year 9,012,891 ordinary shares were issued under the employee share plans at prices between nil and 1064 pence.

25. Reserves

	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 2006	3,034	5	11	1,944	23	(20)	6	6,219	11,222
Recognised income and expense	–	–	–	–	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*	–	–	2	–	–	–	–	(328)	(326)
Net own shares adjustment	–	–	–	–	–	–	–	149	149
Share option expense and related taxation	–	–	–	–	–	–	–	115	115
Dividends, net of scrip	–	–	–	–	–	–	–	(519)	(519)
At 31 December 2006	**3,865**	**5**	**13**	**3,149**	**410**	**51**	**678**	**7,990**	**16,161**
Recognised income and expense	**–**	**–**	**–**	**–**	**340**	**6**	**303**	**3,010**	**3,659**
Capitalised on scrip dividend	**(8)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**
Shares issued, net of expenses	**856**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**856**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**24**
Share option expense and related taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**55**	**55**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(601)**	**(601)**
At 31 December 2007	**4,713**	**5**	**13**	**3,149**	**750**	**57**	**981**	**10,478**	**20,146**

* The premium paid on the 8.9 per cent non-cumulative preference shares redeemed in 2006 has been reclassified as a deduction from retained earnings rather than a deduction from the share premium account. Subsequently it has been deemed not appropriate to apply the relief given in section 160(2) of the Companies Act 1985 that allows a premium payable on redemption to be paid out of the proceeds of a fresh issue of shares made for the purpose of the redemption. This is because the fresh issue of shares contemplated for the redemption was not complete at the date of the redemption.

Transaction costs relating to share issues deducted from reserves account total $5 million (2006: $20 million).

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 of the Company to satisfy these awards. All shares have been acquired through the London Stock Exchange.

During the year, the 1995 trust acquired 190,600 shares at a market price of $5 million (2206: nil). At 31 December 2007, the 1995 trust held 261,495 (2006: 2,148,874) shares of the Company. These shares are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Supplementary Restricted Share Scheme, Performance Share Plan and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group.

During the current year the 2004 trust has acquired, at market value, 351,340 (2006: 301,952) shares of the Company for an aggregate price of $10 million (2006: $9 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 2007, the 2004 trust held 377,270 (2006: 311,157) shares of the Company, of which none (2006: none) have vested unconditionally.

Own shares held total 638,765 at 31 December 2007 (2006: 2,460,031). The maximum number of shares held during the year was 2,526,144 (2006: 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 2007.

26. Minority Interests

	$300m 7.267% Hybrid Tier-1 Securities $million	Other minority interests $million	Total $million
At 1 January 2006	336	115	451
Arising on acquisitions*	–	15	15
Income/expenses in equity attributable to minority interests	–	35	35
Other profits attributable to minority interests	19	57	76
Recognised income and expense	19	92	111
Distributions	(22)	(33)	(55)
Other increases	–	20	20
At 31 December 2006	**333**	**209**	**542**
Arising on acquisition	**–**	**3**	**3**
Income/expenses in equity attributable to minority interests	**–**	**48**	**48**
Other profits attributable to minority interests	**19**	**129**	**148**
Recognised income and expense	**19**	**177**	**196**
Distributions	**(22)**	**(98)**	**(120)**
Reductions	**–**	**(20)**	**(20)**
At 31 December 2007	**330**	**271**	**601**

* Amounts have been restated as explained in note 33 on page 65

27. 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.

	2007 $million	2006 $million
Cash and balances at central banks	**10,175**	7,698
Less restricted balances	**(4,846)**	(3,958)
Treasury bills and other eligible bills	**6,203**	6,233
Loans and advances to banks	**32,464**	16,084
Trading securities	**11,342**	12,104
Total	**55,338**	38,161

28. Net Interest Margin and Interest Spread

	2007 %	2006 %
Net interest margin	**2.5**	2.5
Interest spread	**1.9**	2.1

	$million	**$million**
Average interest earning assets	**253,219**	211,486
Average interest bearing liabilities	**219,191**	188,715

29. Remuneration

The Group employed 69,612 staff at 31 December 2007 (2006: 59,205).

Within the authority delegated by the Board of Directors, the Board Remuneration Committee is involved in determining the remuneration policy of the Group and specifically for agreeing the individual remuneration packages for executive directors and other highly remunerated individuals. No executive directors are involved in deciding their own remuneration. The Group's remuneration policy 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 for which they are responsible, the Group as a whole and the interests of the shareholders; and
- Maintain competitive reward that reflects the international nature of the Group and enable it to attract and retain talented employees of the highest quality internationally.

The success of the Group depends upon the performance and commitment of talented employees. In terms of applying this policy:

- Base salaries are set at the median of the Group's key international competitors.
- Annual bonus awards are made wholly on the basis of Group and individual performance and also an individual's adherence to the Group's values.

The Group believes strongly in encouraging employee share ownership at all levels in the organisation. The Group operates certain discretionary share plans, which are designed to provide competitive long-term incentives. Of these plans, the Performance Share Plan and the Executive Share Option Scheme are only exercisable upon the achievement of tough performance criteria. In addition, the Group operates two all-employee sharesave schemes in which 40 per cent (2006: 37 per cent) of employees participate.

30. 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 FSA guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

	2007			2006		
	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	**25,681**	**17,629**	**11,909**	18,344	12,784	9,398
Other contingent liabilities	**8,038**	**6,058**	**4,476**	9,046	7,139	5,418
	33,719	**23,687**	**16,385**	27,390	19,923	14,816
Commitments*						
Documentary credits and short term trade-related transactions	**6,504**	**1,301**	**1,102**	5,029	1,006	845
Forward asset purchases and forward deposits placed	**64**	**64**	**13**	31	31	10
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	**13,888**	**6,944**	**6,079**	14,083	7,042	3,693
Less than one year	**18,260**	**–**	**–**	20,543	–	–
Unconditionally cancellable	**45,279**	**–**	**–**	29,858	–	–
	83,995	**8,309**	**7,194**	69,544	8,079	4,548

* Includes amounts relating to the Group's share of its joint ventures.

31. Liquidity Risk

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date, on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

The Risk Review section explains the Group's risk management with respect to asset and liability management.

	2007				
	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	**5,329**	**–**	**–**	**4,846**	**10,175**
Derivative financial instruments	**6,228**	**7,042**	**9,740**	**3,194**	**26,204**
Loans and advances to banks	**32,461**	**3,613**	**1,269**	**336**	**37,679**
Loans and advances to customers	**51,010**	**28,334**	**29,921**	**47,717**	**156,982**
Investment securities	**18,526**	**21,269**	**20,034**	**13,373**	**73,202**
Other assets	**7,139**	**392**	**322**	**17,110**	**24,963**
Total assets	**120,693**	**60,650**	**61,286**	**86,576**	**329,205**
Liabilities					
Deposits by banks	**25,524**	**2,361**	**540**	**160**	**28,585**
Customer accounts	**160,925**	**15,883**	**3,791**	**1,997**	**182,596**
Derivative financial instruments	**6,810**	**7,024**	**9,716**	**2,720**	**26,270**
Debt securities in issue	**10,964**	**11,637**	**6,363**	**3,189**	**32,153**
Other liabilities	**9,533**	**724**	**739**	**11,413**	**22,409**
Subordinated liabilities and other borrowed funds	**–**	**502**	**6,092**	**9,146**	**15,740**
Total liabilities	**213,756**	**38,131**	**27,241**	**28,625**	**307,753**
Net liquidity gap	**(93,063)**	**22,519**	**34,045**	**57,951**	**21,452**

	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	44,071	140,494
Investment securities	19,311	20,141	18,207	5,016	62,675
Other assets	1,316	509	789	18,403	21,017
Total assets	87,353	50,723	54,360	73,666	266,102
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	14,153	18,096
Subordinated liabilities and other borrowed funds	–	501	2,440	9,758	12,699
Total liabilities	163,580	37,939	19,418	27,770	248,707
Net liquidity gap	(76,227)	12,784	34,942	45,896	17,395

* Amounts have been restated as explained in note 33 on page 65.

32. 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.

	2007		2006	
	Book amount $million	**Fair value $million**	*Book amount $million	*Fair value $million
Assets				
Cash and balances at central banks	**10,175**	**10,175**	7,698	7,698
Loans and advances to banks	**35,365**	**35,316**	19,724	19,727
Loans and advances to customers	**154,266**	**153,828**	139,300	139,654
Investment securities	**2,819**	**2,779**	2,786	2,754
Liabilities				
Deposits by banks	**25,880**	**25,844**	26,233	26,184
Customer accounts	**179,760**	**179,694**	147,382	147,492
Debt securities in issue	**27,137**	**27,072**	23,514	23,518
Subordinated liabilities and other borrowed funds	**15,740**	**15,029**	**12,699	12,877

* Amounts have been restated as explained in note 33.

** The book amount includes adjustments as a result of fair value hedging relationships.

33. Restatement of Prior Periods

Acquisitions

In the consolidated balance sheet as at 31 December 2006, the fair value amounts in relation to the acquisitions of Union and Hsinchu contained some provisional balances. During the year to 31 December 2007, certain of these balances have been revised. In accordance with IFRS 3 "Business Combinations", the adjustments to the provisional balances have been made as at the date of acquisition and the 2006 balance sheet amounts restated, with a corresponding adjustment to goodwill, increasing goodwill on acquisition relating to Union and Hsinchu by $8 million to $414 million and by $93 million to $1,041 million respectively. The adjustments primarily relate to a reassessment of the value of certain loan assets, investment debt securities and retirement benefit obligations, together with associated deferred tax. The income statement for 2006 has not been restated, because any effect is immaterial.

	As reported at 2006 $million	Fair value adjustment to Union $million	Fair value adjustment to Hsinchu $million	Reclassification $million	Restated at 2006 $million
Loans and advances to customers	139,330	(10)	(20)	–	139,300
Investment securities	49,487	–	10	–	49,497
Goodwill and intangible assets	6,146	8	93	–	6,247
Property, plant and equipment	2,168	(1)	1	–	2,168
Deferred tax assets	538	3	7	(36)	512
Retirement benefit obligations	472	–	89	(8)	553
Other liabilities	11,355	–	4	(28)	11,331
Minority interests	544	–	(2)	–	542

Cash flow statement

The following items have been re-presented in the cash flow statement for the year ended 31 December 2006:

- net cash flow from operating activities increased by $254 million, and net cash from financing activities decreased by $254 million, following the separate identification of the outflow on the redemption of the preference shares of $328 million and the inflow from certain of the proceeds from the issues of ordinary share capital of $74 million, both of which were previously included in other accounts within net cash flow from operating activities;
- a reclassification within cash flow from operating activities of $782 million between other accounts and amounts written off, net of recoveries. The remaining balance of $158 million represents the non-cash income statement items relating to recoveries of acquisition fair values and discount unwind and has been re-named accordingly; and
- the purchase of own shares and the inflow from the exercise of share options has been presented on a gross basis within net cash from financing activities.

The net increase in cash and cash equivalents in the cash flow statement has been unaffected by these reclassifications.

34. Related Party Transactions

In November and December 2007, the Group entered into two vertical slice transactions to acquire a portfolio of Whistlejacket's securities, settled by a cash payment, which is net of the redemption value of the capital notes invested by the Group in the vehicle. The capital notes were exchanged at net asset value, crystallising a loss for the Group of $116 million, which is reported within 'Other operating income'. The portfolio of debt securities acquired totalled $3.4 billion and has been classified as available-for-sale. In addition to these transactions, the Group acquired $1.7 billion of assets from Whistlejacket, some of which were subsequently sold, without any significant profit and loss impact.

35. Post Balance Sheet Events

The Group announced, on 18 September 2007, the acquisition of American Express Bank Limited ("AEB"), from American Express Company for a total cash consideration equal to the net asset value of AEB at completion plus $300 million. The transaction is expected to be completed in the first quarter of 2008.

On 11 January 2008, the Group completed the acquisition of a 49 per cent stake in UTI Securities Limited, an equity brokerage firm in India.

On 11 January 2008, the Group announced the acquisition of a Korean mutual savings bank, Yeahreum Mutual Savings Bank, which is expected to be completed in the first quarter of 2008.

On 31 January 2008, the Group announced that it intended to provide liquidity to Whistlejacket subject to certain pre-conditions, one of which was that enforcement proceedings had not commenced. On 11 February 2008, Whistlejacket advised that it had breached its capital note Net Asset Value ("NAV") trigger of 50 per cent. The breach of the trigger was an enforcement event, which required the security trustee, BNY Corporate Trustee Service, to appoint a receiver to manage Whistlejacket. As a result, the proposal announced on 31 January 2008 lapsed. However the Group continued to discuss with the receiver alternative arrangements to provide liquidity. Subsequently on 20 February 2008, the Group announced that it had withdrawn the conditional proposals made to the receiver as a result of a number of factors, including the pace of continuing deterioration in the market for certain assets classes and the impracticality of completing any proposal within the confines of the receivership as it has evolved.

On 26 February 2008 a dividend of 56.23 cents per share was recommended.

36. Corporate Governance

The directors confirm that, throughout the period, the Company has complied with the provisions of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange Limited ("HK Listing Rules"). The directors also confirm that the announcement of these results has been reviewed by the Company's Audit and Risk Committee.

37. UK and Hong Kong Accounting Requirements

As required by the HK Listing Rules, an explanation of the differences in accounting practices between EU endorsed IFRS and Hong Kong Financial Reporting Standards is summarised below.

There would be no significant difference had the accounts been prepared in accordance with Hong Kong Financial Reporting Standards. EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board if a standard has not been endorsed by the European Union.

Summarised Consolidated Income Statement

First half and second half 2007

	1st half 2007 $million	2nd half 2007 $million	2007 $million
Interest income	7,473	8,703	**16,176**
Interest expense	(4,521)	(5,390)	**(9,911)**
Net interest income	2,952	3,313	**6,265**
Fees and commission income	1,478	1,711	**3,189**
Fees and commission expense	(250)	(278)	**(528)**
Net trading income	649	612	**1,261**
Other operating income	434	446	**880**
	2,311	2,491	**4,802**
Operating income	5,263	5,804	**11,067**
Staff costs	(1,884)	(2,065)	**(3,949)**
Premises costs	(274)	(318)	**(592)**
General administrative expenses	(610)	(719)	**(1,329)**
Depreciation and amortisation	(150)	(195)	**(345)**
Operating expenses	(2,918)	(3,297)	**(6,215)**
Operating profit before impairment losses and taxation	2,345	2,507	**4,852**
Impairment losses on loans and advances and other credit risk provisions	(361)	(400)	**(761)**
Other impairment	(3)	(54)	**(57)**
(Loss)/profit from associates	(1)	2	**1**
Profit before taxation	1,980	2,055	**4,035**
Taxation	(533)	(513)	**(1,046)**
Profit for the year	1,447	1,542	**2,989**

Profit attributable to:			
Minority interest	48	100	**148**
Parent company shareholders	1,399	1,442	**2,841**
Profit for the year	1,447	1,542	**2,989**
Basic earnings per ordinary share	98.5c	102.6c	**201.1c**
Diluted earnings per ordinary share	97.1c	101.4c	**198.7c**

Financial Calendar

Ex-dividend date	5 March 2008
Record date	7 March 2008
Expected posting to shareholders of 2007 Report and Accounts	27 March 2008
Annual General Meeting	7 May 2008
Payment date – final dividend on ordinary shares	16 May 2008

Copies of this statement are available from:

Investor Relations, Standard Chartered PLC, 1 Aldermanbury Square, London, EC2V 7SB or from our website on http://investors.standardchartered.com

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The following information will be available on our website

- *A live webcast of the annual results analyst presentation (available from 9.45 am GMT)*
- *The archived webcast and Q/A session of analyst presentation in London (available 2 pm GMT)*
- *Interviews with Peter Sands, Group Chief Executive Officer and Richard Meddings, Group Finance Director available from 8.15 am GMT.*
- *Slides for the Group's presentations (available after 2pm GMT)*

Images of Standard Chartered are available for the media at http://www.standardchartered.com/global/mc/plib/directors_p01.html

Information regarding the Group's commitment to Sustainability is available at http://www.standardchartered.com/sustainability

The 2007 Annual Report will be made available on the website of the Stock Exchange of Hong Kong and on our website http://investors.standardchartered.com *as soon as is practicable.*

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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