



## STANDARD CHARTERED PLC

(incorporated in England and Wales and registered as a public limited company)

**\$750,000,000**

**7,500 American Depositary Shares Representing 7,500 Non-Cumulative Redeemable Preference Shares**

### **Initial Offering Price: \$100,000 per American Depositary Share**

Standard Chartered PLC ("Standard Chartered" or the "Company") is offering 7,500 dollar-denominated non-cumulative redeemable preference shares (the "Preference Shares"), with a nominal value of \$5 each, which will be sold in the form of American Depositary Shares ("ADSs") evidenced by American Depositary Receipts ("ADRs"). Dividend payments on the paid up amount of \$100,000 per Preference Share will be calculated by reference to a fixed rate of 7.014% per annum until, but excluding, July 30, 2037 and, thereafter, unless redeemed, by reference to a rate of 1.46% per annum plus Three Month LIBOR (as defined herein).

The Preference Shares will be issued fully paid for cash and will rank *pari passu inter se* and *pari passu* with the Existing Preference Shares (as defined herein) (except, in the case of the Existing Sterling Preference Shares (as defined herein), as to certain powers of the Board of Directors of the Company in relation to the payment of dividends and other distributions) and in priority to the ordinary shares in the capital of the Company (the "Ordinary Shares"). The Preference Shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer (the "Global Preference Share"). The Global Preference Share will be deposited with JPMorgan Chase Bank, N.A., as depositary for the ADRs (the "Depositary"), or its nominee.

Subject to the limitations, discretions and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend, which will accrue from May 25, 2007. Dividends will be payable semi-annually in arrear on January 30 and July 30 of each year commencing January 30, 2008 until July 30, 2037 (each a "Semi-Annual Dividend Payment Date"), and thereafter quarterly in arrear on January 30, April 30, July 30 and October 30 of each year, commencing October 30, 2037 (each a "Quarterly Dividend Payment Date" and, together with the Semi-Annual Dividend Payment Dates, the "Dividend Payment Dates") to those holders of Preference Shares whose names appear on the register of members of the Company on the fifteenth calendar day preceding such Dividend Payment Date. In respect of the period from, and including, the Issue Date to, but excluding, the first Dividend Payment Date, the dividend payable for the Preference Shares will amount to \$4,773.42 per Preference Share. Dividends will accrue and will be payable when, as, and if, declared by the Board (as defined herein) on the paid up amount of \$100,000 per Preference Share.

Subject to the Articles (as defined herein), provisions of applicable law, and to the prior consent of the Financial Services Authority of the United Kingdom ("FSA") (if such consent is required, in which case, the FSA may impose conditions on the redemption) the Company may, at its option, elect to redeem all or part of the Preference Shares on July 30, 2037 and on any Quarterly Dividend Payment Date falling on or around ten year intervals thereafter (each such date upon which Preference Shares may be redeemed being a "Redemption Date"). The amount payable on redemption will be the paid up amount of \$100,000 per Preference Share to be redeemed, plus an amount equal to the accrued but unpaid dividend on that Preference Share in respect of the period from and including the Dividend Payment Date last preceding the Redemption Date to, but excluding, the Redemption Date, but only to the extent that any such amount was, or would have been, payable as a cash dividend. See "Description of Preference Shares" for more information.

A summary of the rights attaching to the Preference Shares is set out in "Description of Preference Shares" on page 25 of this Offering Circular.

*Prospective investors should consider the factors described under the section entitled "Risk Factors" beginning on page 11 of this Offering Circular.*

None of the Preference Shares, ADSs or ADRs has been or will be registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other United States jurisdiction. The ADSs are being offered in the United States solely to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act (the "Rule 144A ADSs") and outside the United States in reliance on Regulation S under the Securities Act (the "Regulation S ADSs").

None of the Preference Shares, ADSs or ADRs will represent a deposit liability of the Company and none of them will be insured by the United States Federal Deposit Insurance Corporation or any other governmental agency or compensation scheme in the United States, the United Kingdom or any other jurisdiction.

The Rule 144A ADSs will be evidenced by a global Rule 144A ADR (the "Master Rule 144A ADRs") and the Regulation S ADSs will be evidenced by a global Regulation S ADR (the "Master Regulation S ADRs" and, together with the Master Rule 144A ADR, the "Master ADRs"), each of which will be in registered form and deposited on or about the date of issuance with a custodian for, and registered in the name of, Cede & Co. as a nominee of, The Depositary Trust Company ("DTC").

This document comprises a prospectus relating to Standard Chartered prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA") and approved by the FSA under section 87A of the FSMA. This document has been filed with the FSA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules. Application has been made to the FSA in its capacity as competent authority pursuant to Part VI of the FSMA (the "UK Listing Authority") for the ADSs to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such ADSs to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market.

References in this Offering Circular to ADSs being "listed" and all related references shall mean that such ADSs have been admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market and have been admitted to the Official List. The London Stock Exchange's Gilt-Edged and Fixed Interest Market is a regulated market for purposes of Directive 93/22/EC (the "Investment Services Directive").

The initial purchasers expect to deliver the ADSs through the facilities of DTC in New York, New York and its direct and indirect participants, including Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), on or about May 25, 2007.

**Joint Bookrunners and Lead Managers**

**JPMORGAN**

**MERRILL LYNCH & CO.**

**STANDARD CHARTERED BANK**

**GOLDMAN, SACHS & CO.**

**Co-managers**

**LEHMAN BROTHERS**

The date of this Offering Circular is May 25, 2007.

*Investors should rely only on the information contained in this Offering Circular, including the documents incorporated by reference herein. The Company, the initial purchasers and their respective affiliates have not authorized any other person to provide investors with different information. If anyone provides investors with different or inconsistent information, investors should not rely on it. The Company, the initial purchasers and their respective affiliates are not making an offer to sell the securities offered hereby in any jurisdiction where such offer or sale is not permitted. The information contained in this Offering Circular is accurate only as of the date hereof.*

*This Offering Circular is being provided to a limited number of institutional and other sophisticated investors for informational use solely in connection with the consideration of the purchase of the securities offered hereby pursuant to Rule 144A under the Securities Act ("Rule 144A") or pursuant to Regulation S under the Securities Act ("Regulation S"). Its use for any other purpose is not authorized. It may not be copied or reproduced, in whole or in part, nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is provided.*

*Each subsequent purchaser of the securities offered hereby will be deemed by its acceptance of those securities to have made certain acknowledgments, representations and agreements intended to restrict the resale or other transfer of those securities as set forth in the securities or described in this Offering Circular and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See "Notice to Investors".*

*Until 40 days after the commencement of this offering, an offer or sale within the United States by any initial purchaser (whether or not participating in this offering) of the securities initially sold pursuant to Regulation S may violate the registration requirements of the Securities Act if such offer or sale is made other than in accordance with Rule 144A under the Securities Act. See "Notice to Investors".*

*This Offering Circular is not a prospectus for purposes of Section 12(a)(2) or any other provision of, or rule under, the Securities Act.*

*The Company accepts responsibility for the information contained in this Offering Circular. The Company, having taken all reasonable care to ensure that such is the case, confirms that the information contained in this Offering Circular is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.*

*No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the initial purchasers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Company in connection with the issue and offering of the ADSs or their distribution.*

*This Offering Circular should be read in conjunction with all documents which are incorporated herein by reference (see "Incorporation of Information by Reference" below). This Offering Circular should be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.*

*This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the initial purchasers to subscribe for or purchase, any of the ADSs. The distribution of this Offering Circular and the offering of the ADSs in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the initial purchasers to inform themselves about and to observe any such restrictions.*

**THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, A PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF A PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED IN THIS OFFERING CIRCULAR AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF**

## **DISCUSSIONS WITH PROSPECTIVE INVESTORS REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.**

IN CONNECTION WITH THE ISSUE OF THE ADSs, J.P. MORGAN SECURITIES INC. (THE “STABILIZING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT ADSs (PROVIDED THAT THE NUMBER OF THE PREFERENCE SHARES REPRESENTED BY ADSs ALLOTTED DOES NOT EXCEED 105% OF THE NUMBER OF THE PREFERENCE SHARES REPRESENTED BY SUCH ADSs) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF SUCH ADSs AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE ADSs AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE ADSs.

### **Notice to New Hampshire Residents**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

### **Available Information**

The Company is exempt from the registration requirements of Section 12(g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), pursuant to Rule 12g3-2(b) thereunder. The Company will agree in the Deposit Agreement (as defined herein) that if, at any time prior to the termination of the Deposit Agreement (in the case of the Rule 144A ADSs) or, in the case of the Regulation S ADSs, during the 40 days after the later of (i) the commencement of the offering of Regulation S ADSs and the Preference Shares represented thereby and (ii) the completion of the distribution of such securities (the “Distribution Compliance Period”), the Company is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Company will provide to any holder or beneficial owner of ADSs or of Preference Shares, and to any prospective purchaser of ADSs or of Preference Shares, upon request of any such holder, beneficial owner or prospective purchaser, the information required by Rule 144A(d)(4)(i) under the Securities Act and otherwise comply with Rule 144A(d)(4) under the Securities Act.

### **Forward-Looking Statements**

This document contains forward-looking statements. These statements concern, or may affect, future matters and include matters that are not facts. These may include Standard Chartered’s and its subsidiaries’ (collectively, the “Group”) future strategies, business plans and results, and are based on the current expectations of the Directors of Standard Chartered. They are subject to a number of risks and uncertainties that might cause actual results and outcomes to differ materially from expectations outlined in these forward-looking statements. A number of factors could cause actual results and outcomes to differ materially from those expressed or implied by the forward-looking statements including, without limitation, regulatory developments, movements in stock markets, information technology developments, and competitive and general conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described

herein. Forward-looking statements contained in this document based on past or current trends or activities should not be taken as a representation that such trends or activities will continue in the future.

When used in this Offering Circular, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they relate to the Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### **Enforcement of Liabilities; Service of Process**

The Company is incorporated in England and Wales and registered as a public limited company and all or a substantial portion of its assets are located outside the United States. In addition, most of its directors and officers reside outside of the United States, and the majority of the assets of such persons are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process in the United States upon the Company or such persons, or to enforce against the Company or such persons judgments obtained in courts of the United States predicated upon the laws of jurisdictions other than England, including the civil liability provisions of the United States federal or state securities laws. There is doubt as to the enforceability in the United Kingdom in original actions or in actions for the enforcement of judgments of US courts, of civil liabilities predicated upon the federal securities laws of the United States.

### **Presentation of Financial and Other Information**

Certain financial and other information with respect to the Group is set forth in the following annexes, which form an integral part of this Offering Circular:

1. Annex A – The sections entitled “Financial Review”, “Risk Review” and “Capital” from the Annual Report and Accounts of the Group as of and for the year ended December 31, 2006 (the “2006 Annual Report”);
2. Annex B – The section entitled “Financial Review” from the Annual Report and Accounts of the Group as of and for the year ended December 31, 2005 (the “2005 Annual Report”);
3. Annex C – The independent auditor’s report, audited consolidated financial statements of the Group as of and for the year ended December 31, 2006, prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretation Committee Interpretations as adopted by the European Union (together “IFRS”), and including comparative figures as of and for the year ended December 31, 2005, and unaudited supplemental financial information as of and for the years ended December 31, 2006 and 2005; and
4. Annex D – The independent auditor’s report, audited consolidated financial statements of the Group as of and for the year ended December 31, 2005, prepared in accordance with IFRS and including restated comparative figures as of and for the year ended December 31, 2004, and unaudited supplemental financial information as of and for the years ended December 31, 2005 and 2004.

The Group has adopted US dollars as the currency in which it reports its accounts and financial statements. Since most of the Group’s business is conducted in US dollars or currencies linked to the US dollar, it is considered most appropriate for the Group to prepare its financial statements in US dollars. Unless another currency is specified, the word “dollar” or symbol “\$” in this Offering Circular means a United States dollar and the word “cent” or symbol “¢” means one-hundredth of one United States dollar.

### **Incorporation of Information by Reference**

This Offering Circular should be read and construed in conjunction with the sections entitled “Directors Remuneration Report”, and “Statement of Directors’ Responsibilities in respect of the Annual Report and the Financial Statements” from the 2005 Annual Report, the sections entitled “Board of Directors”, “Senior Management”, “Report of the Directors”, “Corporate Governance”,

“Directors Remuneration Report”, and “Statement of Directors’ Responsibilities in respect of the Annual Report and the Financial Statements” from the 2006 Annual Report, the Company’s announcement on May 1, 2007 that John Peace and Sunil Bharti Mittal had been appointed as independent non-executive directors with effect from August 1, 2007 and that the role of Senior Independent Director would move from Rudy Markham to John Peace on that date, the Company’s announcement on May 3, 2007 relating to the Annual General Meeting of the Company, and the Company’s announcement on May 9, 2007 of the directorships held by John Peace and Sunil Bharti Mittal. Such sections of the 2005 Annual Report and the 2006 Annual Report and such announcements shall be deemed to be incorporated in, and form part of, this Offering Circular, except that any statement contained therein (other than the statements in the “Statement of Directors’ Responsibilities in respect of the Annual Report and the Financial Statements” and the information in the “Directors Remuneration Report” that is described as having been audited, in each case from the 2006 and 2005 Annual Reports) shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. Any information incorporated by reference within the 2005 Annual Report or the 2006 Annual Report that is not specifically incorporated by reference above does not form part of this Offering Circular.

Copies of the 2005 Annual Report, the 2006 Annual Report and the announcements referred to in the preceding paragraph may be obtained from the Company at its registered office and are available free of charge on or through the Company’s internet website at <http://www.standardchartered.com>. See “General Information” for more information.

Other than the sections of the 2005 Annual Report and the 2006 Annual Report specifically incorporated by reference in this Offering Circular and the sections of the 2006 Annual Report and 2005 Annual Report specifically included in the annexes to this Offering Circular as described in “Presentation of Financial and Other Information”, such documents do not form part of this Offering Circular and the contents of the Company’s internet website do not form part of this Offering Circular and, in each case, should not be relied upon for purposes of forming an investment decision with respect to the ADSs and the Preference Shares.

### **Introduction of IFRS**

The Group’s audited consolidated financial statements as of and for the year ended December 31, 2006, including the notes thereto and including comparative figures as of and for the year ended December 31, 2005, as set forth in Annex C to this Offering Circular, and the consolidated financial statements as of and for the year ended December 31, 2005, including the notes thereto and including restated comparative figures as of and for the year ended December 31, 2004 as set forth in Annex D to this Offering Circular, have been prepared in accordance with IFRS. IFRS differs in various material respects from generally accepted accounting principles in the United States (“US GAAP”). See “Description of Certain Differences Between IFRS and US GAAP” in this Offering Circular and note 55 to the audited consolidated financial statements as of and for the year ended December 31, 2005 in Annex D to this Offering Circular.

The Group prepared its financial statements in accordance with IFRS for the first time in connection with the preparation of the 2005 Annual Report and consequently applied IFRS 1. The 2005 Annual Report includes comparative amounts for the year ended December 31, 2004 that have been restated in accordance with IFRS. However, it should be noted that IFRS 1 includes specific transitional provisions for International Accounting Standard 32, ‘Financial Instruments: Disclosure and Presentation’ (“IAS 32”) and International Accounting Standard 39 ‘Financial Instruments: Recognition and Measurement’ (“IAS 39”) and the Group has taken advantage of these transitional arrangements by not restating corresponding comparative amounts as of and for the year ended December 31, 2004 in accordance with IAS 32 and IAS 39. Accordingly, such comparative amounts are significantly different from amounts reported in respect of 2005.

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## Key Features of the Offering

The following section is qualified in its entirety by the more detailed information included elsewhere in this Offering Circular. Capitalized terms used but not defined in this section shall bear the respective meanings assigned to them under “Description of Preference Shares” and “Description of American Depositary Shares”. Prospective investors should also consider carefully, among other things, the factors set out under “Risk Factors”.

|                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issuer</b> .....                                    | Standard Chartered PLC.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Offering</b> .....                                  | 7,500 ADSs representing 7,500 Preference Shares. The ADSs are being offered by the Company in the United States to QIBs in reliance on Rule 144A under the Securities Act and outside the United States in reliance on Regulation S under the Securities Act.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Maturity</b> .....                                  | The ADSs and the Preference Shares will be perpetual.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>The ADSs and ADRs</b> .....                         | Each ADS will represent one Preference Share, and an ADR is a physical certificate evidencing a specified number of ADSs. The Rule 144A ADSs and the Regulation S ADSs will be evidenced by the Master ADRs, each of which will be in registered form and deposited on or about the Issue Date with a custodian for, and registered in the name of, Cede & Co. as a nominee of DTC.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>The Preference Shares</b> .....                     | <p>Non-cumulative callable dollar preference shares which entitle the holder thereof to the rights specified herein, as described under “Description of Preference Shares”.</p> <p>The Preference Shares will have a nominal value of \$5 each and will be issued at a premium of \$99,995 fully paid for cash (such that the total paid up amount of each Preference Share will be \$100,000). The Preference Shares will rank <i>pari passu inter se</i> and <i>pari passu</i> with the Existing Preference Shares (except, in the case of the Existing Sterling Preference Shares, as to certain powers of the Board in relation to payment of dividends and other distributions) and in priority to the Ordinary Shares.</p> <p>The Preference Shares will be represented by a share warrant to bearer and will be in the form of a single global warrant to bearer. The Global Preference Share will be deposited with the Depositary or its nominee. Title to Preference Shares represented by a share warrant to bearer will pass by delivery of the relevant bearer share warrant without any written transfer and without registration.</p> |
| <b>Use of Proceeds</b> .....                           | The proceeds from the sale of the ADSs, less the underwriting compensation and expenses payable by the Company, are estimated to be approximately \$743,625,000. The proceeds will be used by the Company for the general business purposes of the Group, which may include acquisitions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Initial Offering Price and Paid Up Amount</b> ..... | \$100,000 per ADS.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Issue Date</b> .....                                | May 25, 2007.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Dividends</b> .....                                 | Dividend payments on the paid up amount of \$100,000 per Preference Share will be calculated in respect of the relevant Dividend Period at the rate of 7.014% per annum from, and including, the Issue Date to, but excluding, July 30, 2037 (the “Fixed Rate Dividend Period”) and thereafter (the “Floating Rate Dividend Period”), unless redeemed, at the rate of 1.46% per annum plus Three Month LIBOR (as defined herein).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Dividend Restriction</b> .....                      | If any dividend on the Preference Shares is not paid in full on a Dividend Payment Date (the “Relevant Dividend Payment Date”), the Dividend Restriction shall apply. The Dividend Restriction means that (1) the Company shall not declare or pay a dividend on its Ordinary Shares for a one year period commencing on the Relevant Dividend Payment Date; (2) the Company shall not, and shall procure that Standard Chartered Bank shall not, declare, pay or                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

distribute any interest, any dividend or other payment on any of its then issued Tier 1 Capital (other than the Existing Sterling Preference Shares and certain intra-group exceptions which are more particularly described in “Description of the Preference Shares” on page 25) or make any payment on a Tier 1 Guarantee; and (3) the Company shall procure that no payment is made by any subsidiary of the Company on any security benefiting from a Tier 1 Guarantee, subject, in each case, to the exceptions described in “Description of the Preference Shares”. The periods for which the restrictions set out in (2) and (3) shall apply are as follows: where the relevant Tier 1 Capital (or, in the case of a payment on a Tier 1 Guarantee, the Tier 1 Capital to which that Tier 1 Guarantee relates) pays interest, dividends or other payments (x) quarterly or more frequently, for a period of six calendar months commencing on the Relevant Dividend Payment Date if the Relevant Dividend Payment Date is on or before the Dividend Payment Date on July 30, 2037; and thereafter for a period of three calendar months commencing on the Relevant Dividend Payment Date; (y) semi-annually, for a period of six calendar months commencing on the Relevant Dividend Payment Date; and (z) in any other case, for a period of one year commencing on the Relevant Dividend Payment Date.

Holders of Preference Shares will have no claim in respect of non-payment of dividends.

**Redemption Restriction .....**

On any Relevant Dividend Payment Date, the Redemption Restriction shall apply. The Redemption Restriction means that (without the written consent of a majority in nominal value of, or the sanction of a special resolution passed at a separate general meeting of, the holders of the Preference Shares) (1) the Company shall not redeem, reduce, purchase or otherwise acquire for any consideration any of its Ordinary Shares; (2) the Company shall not, and shall procure that Standard Chartered Bank shall not, redeem, purchase or otherwise acquire for consideration any of its Tier 1 Capital; and (3) the Company shall procure that no subsidiary of the Company redeems, purchases or otherwise acquires for consideration any security benefiting from a Tier 1 Guarantee. The restrictions set out in (1), (2) and (3) shall, in each case, apply for a one year period commencing on the Relevant Dividend Payment Date.

**Dividend Payment Dates.....**

The Company will pay dividends semi-annually in arrear on each Semi-Annual Dividend Payment Date commencing January 30, 2008 until July 30, 2037 and thereafter quarterly in arrear on each Quarterly Dividend Payment Date to those holders of Preference Shares whose names appear on the register of members of the Company on the fifteenth calendar day preceding such Semi-Annual Dividend Payment or Quarterly Dividend Payment Date, as the case may be.

**Limitations on Payment in Respect of Dividends.....**

Dividends are non-cumulative and are payable at the discretion of the Board. The Board is not permitted to pay dividends on the Preference Shares if, in its opinion, such payment would exceed available distributable profits or breach capital adequacy requirements applicable to the Company or any subsidiary or associated undertaking of the Company.

**Redemption .....**

Subject to the Articles, provisions of applicable law and to the prior consent of the FSA (if such consent is required, in which case, the FSA may impose conditions on the redemption), the Company may, at its option, redeem the Preference Shares in whole or in part on July 30, 2037 and on any Quarterly Dividend Payment Date falling on or around ten year intervals thereafter (each such date upon which Preference Shares may be redeemed being a “Redemption Date”).

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                     | <p>The amount payable on redemption will be the paid up amount of \$100,000 per Preference Share to be redeemed, plus an amount equal to the accrued but unpaid dividend on that Preference Share in respect of the period from and including the Dividend Payment Date last preceding the Redemption Date to, but excluding, the Redemption Date, but only to the extent that any such amount was, or would have been, payable as a cash dividend.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Rights upon Liquidation.....</b> | <p>On a winding-up or other return of capital (other than a redemption, reduction or repurchase of shares), the holders of the Preference Shares will rank in the application of the assets of the Company available to shareholders (1) in priority to any payment to the holders of Ordinary Shares, (2) equally in all respects with the holders of the Existing Preference Shares and (3) in priority to or equally in all respects with the holders of any other class of shares in issue, unless a new class of shares is issued by the Company which ranks in priority to the Preference Shares. Any such issuance is subject to a vote of the Preference Share holders as set forth in “Description of Preference Shares — Voting”.</p> <p>Subject to such ranking, in such event holders of the Preference Shares will be entitled to an amount equal to the aggregate of (1) the paid up amount of \$100,000 per Preference Share plus (2) any dividends accrued for the then current Dividend Period to the date of the commencement of the winding-up or other return of capital, but only to the extent that any such amount was, or would have been, payable as a cash dividend plus (3) any dividends resolved to be paid on or after the date of the commencement of the winding-up or other return of capital in respect of a Dividend Period ending on or before such date.</p>                                                                                                                                                                                                                                                                                             |
| <b>Substitution .....</b>           | <p>Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to the prior consent of the FSA (if such consent is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preferences Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities (as defined in “Description of Preference Shares – Substitution”) on any Dividend Payment Date without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.</p> <p>If the Company substitutes the Preference Shares with Qualifying Non-Innovative Tier 1 Securities, the United States federal income tax consequences are uncertain, because such consequences will depend on all of the terms and conditions of such Qualifying Non-Innovative Tier 1 Securities, but in certain cases a United States holder will recognize gain or loss for United States federal income tax purposes on such a substitution even if no cash is actually distributed in respect of such substitution. Prospective holders should refer to the section entitled “U.S. Federal Income Tax Consequences of a Substitution”. <b>Prospective holders should consult with their own tax advisor about the potential tax consequences to them of a substitution and of acquiring, holding, and disposing of Qualifying Non-Innovative Tier 1 Securities.</b></p> |
| <b>Voting Rights.....</b>           | <p>Holders of Preference Shares will only be entitled to vote at general meetings of the Company where (1) the rights of holders of the Preference Shares may be varied or abrogated, or (2) the most recently payable dividend on the Preference Shares has not been paid in full.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

|                                                            |                                                                                                                                                                                                                                                     |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Governing Law</b> .....                                 | The Deposit Agreement, the ADSs and the ADRs will be governed by the laws of the State of New York. The Preference Shares will be governed by the laws of England.                                                                                  |
| <b>Listing</b> .....                                       | Applications will be made to the FSA for the ADSs to be admitted to the Official List and to the London Stock Exchange for such ADSs to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market.                 |
| <b>Depository</b> .....                                    | JPMorgan Chase Bank, N.A.                                                                                                                                                                                                                           |
| <b>Settlement</b> .....                                    | The initial purchasers expect to deliver the ADSs through the facilities of DTC in New York, New York and through the facilities of its direct and indirect participants, including Euroclear and Clearstream, Luxembourg on or about May 25, 2007. |
| <b>Rule 144A ADSs representing Preference Shares</b> ..... | CUSIP No. 853254 AB6<br>ISIN No. US853254AB69                                                                                                                                                                                                       |
| <b>Regulation S ADSs representing Preference Shares</b> .. | CUSIP No. 853254 AC4<br>ISIN No. US853254AC43                                                                                                                                                                                                       |

## **Risk Factors**

Prospective investors should consider carefully the risks set forth below as well as the more detailed information regarding these risks contained in the sub-sections entitled “Risk Review” from the 2006 Annual Report, which is contained in Annex A and the sub-section entitled “Risk” from the “Financial Review” in the 2005 Annual Report which is contained in Annex B, prior to making any investment decision with respect to the ADSs and the Preference Shares. Each of the risks highlighted below could have a material adverse effect on the Group’s business, operations, financial condition or prospects, which, in turn, could have a material adverse effect on the value of the ADSs. In addition, each of the risks highlighted below could adversely affect the trading price of the ADSs and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks faced by the Company and the Group. The Company has described only those risks relating to the Group’s operations that it considers to be material. There may be additional risks that the Company currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

### **Risks relating to the Group’s Business Operations**

***The Group operates primarily in Asia, Africa and the Middle East, and these operations expose it to risks arising from the political and economic environment of markets in these areas that could adversely affect its financial condition and results of operations.***

Operations in many of the markets in which the Group operates in Asia, Africa and the Middle East present various risks that do not necessarily apply to businesses in Western Europe and North America. Some of these markets are typically more volatile and less developed economically and politically than markets in Western Europe and North America. The Group faces significant economic and political risk, including economic volatility, recession, inflationary pressure, exchange rate risk, interruption of business, as well as civil unrest, imposition of exchange controls, sanctions relating to specific countries, expropriation, nationalization, renegotiation or nullification of existing contracts and changes in law or tax policy. These risks could result in an adverse impact on the Group’s financial condition and results of operations.

***The Group is facing significant competition, which may have an adverse effect on its financial condition and results of operations.***

The Group is subject to significant competition from many other international banks operating in the emerging markets described above, including competitors that may have greater financial and other resources, and, in certain of these markets, from local banks. Local regulations in a number of jurisdictions that favor local banks by restricting the ability of international banks operating in the relevant country to enter the market and/or expand their existing operations could adversely affect the Group’s ability to compete in these markets. Many of the international and local banks operating in the Group’s markets compete for substantially the same customers as the Group. Competition may increase in some or all of the Group’s principal markets and may have an adverse effect on its financial condition and results of operations.

***The Group is operating in a highly regulated industry and bank regulatory restrictions and other laws and regulations could impair its operations.***

The Group’s businesses and earnings are affected by the fiscal or other policies and regulations that are adopted by various regulatory authorities of the United Kingdom, the United States and other jurisdictions where the Group operates and international agencies. The nature and impact of future changes in laws, regulations and regulatory policies are not predictable and are beyond the Group’s control, and changes in such laws, regulations and regulatory policies may have an adverse effect on the Group’s financial condition and results of operations.

***The Group is expanding its operations and this growth may represent a risk if not managed effectively.***

The Group is currently experiencing significant growth as it expands geographically and in the scope of products and services it offers, including through acquisitions. This expansion has most recently included the acquisition by Standard Chartered Bank, a wholly-owned subsidiary of the Company, of Hsinchu International Bank, the seventh largest private sector bank in Taiwan by loans and deposits as at June 30, 2006.

The success of the Group's acquisitions will depend in part on the ability of its management to integrate the operations of newly-acquired businesses with its existing operations and to integrate various departments, systems and procedures. Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be impacted due to demands placed on existing resources by that process. There can be no assurance that:

- the Group will be successful in acquiring all the entities it seeks to acquire;
- the acquired entities will achieve the level of performance that the Group anticipates;
- the projected demand and prices of the Group's products and services will be realized;
- the acquired entities would not cause a disruption to the Group's ongoing businesses, distract management and other resources or make it difficult to maintain the Group's standards, internal controls and procedures;
- the Group would not be required to incur debt or issue equity securities to pay for acquisitions, for which financing may not be available or may not be available on acceptable terms;
- the Group's current ratings would not be affected by such acquired entities;
- the Group would be able to successfully integrate the services, products and personnel of an acquired entity into its operations, especially if the Group acquires large businesses; and
- the Group would not assume unforeseen liabilities and exposures as a result of the acquisitions.

The Group's business strategy is based on organic growth but includes selective plans to continue to acquire assets or businesses that it believes are logical extensions of its existing businesses in order to increase cash flow and earnings. It continues to look at potential acquisitions in a number of markets. The Group may experience some or all of the difficulties described above managing the integration of any subsequent acquisitions into its existing businesses. The failure to effectively manage its expansion could have a material adverse effect on the Group's financial condition and results of operations.

***Changes in the credit quality and the recoverability of loans and amounts due from counterparties may have an adverse effect on the Group's financial condition and results of operations.***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties, or adverse changes arising from a general deterioration in global economic conditions or systemic risks in the financial systems, could reduce the recoverability and value of the Group's assets and require an increase in the Group's level of provisions for bad and doubtful debts. An adverse change in economic conditions could also adversely affect the level of banking activity and the Group's interests and other income. Although the Group devotes considerable resources to managing the above risks, failure to manage this can impact the Group adversely.

***Changes in interest rates, foreign exchange rates, equity prices and other market risks could adversely affect the Group's financial condition and results of operations.***

Market risk is the exposure created by potential changes in market prices and rates. The Group is exposed to market risk arising principally from customer driven transactions. Some of the significant market risks the Group faces are interest rate, foreign exchange and bond price risks. Changes in interest levels, yield curves and spreads may affect, among other things, interest rate margins and trading profits. Changes in currency rates may affect, among other things, the value of assets and liabilities denominated in foreign currencies and also the earnings reported by the Company's non-US dollar denominated branches and subsidiaries. Although the Group devotes considerable resources to managing the above risks, failure to manage this can impact the Group adversely.

***Failure to manage liquidity risk may affect the Company's ability to make payments on its obligations under the ADSs and Preference Shares.***

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 access them only at excessive cost. The Group has a market risk function to oversee the above risks and manages its liquidity prudently in all geographical locations and for all currencies. Exceptional market events can

impact the Group adversely, thereby affecting the Company's ability to fulfill its obligations in respect of the Preference Shares.

***Failure to manage legal risk properly can impact the Group adversely.***

The Group is subject to legal obligations in the UK and other countries around the world in which the Group operates. As a result, the Group is exposed to many forms of legal risk, which may arise in a number of ways. Primarily:

- loss may be caused by changes in applicable laws;
- the Group is subject to a variety of complex governmental regulatory regimes in many of the countries where it operates, in respect of which requirements, standards or sanctions may differ significantly from country to country;
- loss may arise from defective transactions or contracts, either where contractual obligations are not enforceable or do not allocate rights and obligations as intended, or where contractual obligations are enforceable against the Group in an adverse way, or by defective security arrangements;
- the title to and ability to control the assets of the Group (including the intellectual property of the Group, such as its trade names) may not be adequately protected; or
- the Group may be liable for damages to third parties where legal proceedings are brought against it. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

Although the Group has processes and controls to manage legal risk, failure to manage legal risk properly can impact the Group adversely or result in administrative actions or sanctions or other proceedings involving the Group which may have a material adverse effect on the Group's business and ultimately the value of the ADSs.

***Operational risks are inherent in the Group's business.***

The Group's business depends on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate or failed internal control processes and systems, human error, fraud or external events that interrupt normal business operations. The Group has implemented risk controls and loss mitigation procedures and substantial resources are dedicated to developing efficient procedures and staff training to give a reasonable assurance that such procedures will be effective.

***Country risk could result in an adverse impact on the Group's financial condition and results of operations.***

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

- a sovereign borrower may be unable or unwilling to fulfill its foreign currency or cross-border contractual obligations; and/or
- a non-sovereign counterparty may be unable to fulfill its contractual obligations as a result of currency shortage due to adverse economic conditions or actions taken by the government of the country.

These risks could have an adverse impact on the Group's financial condition and results of operations.

***Operating in markets with less developed judicial and dispute resolution systems could have an adverse effect on the Group's operations.***

In the less developed markets in which the Group operates, judicial and dispute resolution systems may be less developed. In case of a breach of contract, there may be difficulties in making and enforcing claims against contractual counterparties. On the other hand, if claims are made against the Group, there may be difficulties in defending such allegations. If the Group becomes party to legal proceedings in a market with an insufficiently developed judicial system, it could have an adverse effect on the Group's financial condition and results of operations.

## **Risks Relating to the ADSs and Preference Shares**

### ***ADSs may not be a suitable investment for all investors.***

Each potential investor in any ADSs must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the ADSs, the merits and risks of investing in the ADSs and the information contained or incorporated by reference in this Offering Circular;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the ADSs and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the potential risks of an investment in the ADSs;
- (iv) understand thoroughly the terms of the ADSs and the Preference Shares and be familiar with the behavior of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### ***Dividends on the Preference Shares are subject to payment and other restrictions and are non-cumulative.***

Dividends on the Preference Shares are payable in cash and will only be payable at the sole discretion of the Board. Dividends may only be paid out of the profits of the Company available for distribution and permitted by law to be distributed. Further, the Board is not permitted to pay dividends on the Preference Shares if, in its opinion, such payment would breach capital adequacy requirements applicable to the Company or any subsidiary or associated undertaking of the Company.

### ***If the Company is wound-up or liquidated, any distribution on the Preference Shares will be subordinated to the claims of its creditors.***

If the Company is wound-up or liquidated, voluntarily or involuntarily, holders of Preference Shares will not be entitled to receive any amount paid up on the Preference Shares until after the claims of all of the Company's creditors have been satisfied. If the Company does not have sufficient assets at the time of liquidation to satisfy those claims, holders of Preference Shares will not receive any amount paid up on the Preference Shares. There is no limitation on the ability of the Company to issue securities in the future that would rank equal or senior in liquidation to the Preference Shares, except as described in "Description of Preference Shares – Variation of Rights and Further Issues".

### ***Limited voting rights.***

Holders of Preference Shares will have limited voting rights and generally will not be entitled to vote on any resolution to appoint, change or increase or decrease the number of Directors. With respect to matters on which Preference Shares do carry voting rights, registered holders of ADSs will have the right to instruct the Depositary as to the exercise of such rights of the number of Preference Shares represented by their ADSs. However, holders of ADSs may not receive notice or otherwise learn of a meeting of holders of Preference Shares in time to instruct the Depositary prior to a cut off date the Depositary will set. See "Description of Preference Shares" and "Description of American Depositary Shares".

### ***Holders may be subject to foreign exchange risk.***

Because the Preference Shares are denominated in US dollars and all payments in respect of those securities are to be made in US dollars, an investment in the Preference Shares entails significant risks for a purchaser resident other than in the United States or a purchaser that conducts its business or activities in a currency other than US dollars ("home currency"). These include the possibility of significant changes in rates of exchange between the home currency and the US dollar and the imposition or modification of foreign exchange controls with respect to the US dollar.

The Group has no control over a number of factors affecting these types of risks, including economic, financial and political events that are important in determining the existence, magnitude and longevity of these risks and their results. In recent years, rates of exchange for certain currencies, including the US dollar, have been volatile, and this volatility may be expected to continue in the

future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative of fluctuations in the rate that may occur in the future. Depreciation of the US dollar against the home currency will result in a decrease in the value, expressed in the home currency, of the Preference Shares, and, in certain circumstances, could result in a loss when payments on the Preference Shares are converted into the home currency.

This description of foreign currency risks does not describe all the risks of an investment in securities denominated in a currency other than the home currency. Investors should consult their own financial and legal advisor as to the risks involved in an investment in the Preference Shares.

***Holders may be required to bear the financial risks of an investment in the Preference Shares and the ADSs for an indefinite period of time.***

The Preference Shares and the ADSs do not have a fixed final redemption date and investors will have no right to call for the redemption of the Preference Shares or the ADSs. Although the Preference Shares and the ADSs may be redeemed in certain circumstances, there are limitations on the ability to do so. In particular, any redemption of the Preference Shares or the ADSs would be subject to the prior consent of FSA, if required (and, if so required, subject to any conditions the FSA may impose). Therefore, investors should be aware that they may be required to bear the financial risks of an investment in the Preference Shares and the ADSs for an indefinite period of time.

***Holding company structure.***

As a holding company, the Company's business is operated through its subsidiaries. As a result, the Company's right to participate in any distribution of the assets of a subsidiary, upon its dissolution, winding-up, liquidation or reorganization or otherwise, and the ability of investors to benefit indirectly from that distribution, is subject to the prior claims of creditors of that subsidiary, except to the extent that the Company may be a creditor of that subsidiary and its claims are recognized. There are legal limitations on the extent to which some of the Company's subsidiaries may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, the Company or some of its other subsidiaries. Accordingly, the Preference Shares will be effectively subordinated to all existing and future liabilities of the Company's subsidiaries (as well as of the Company) and holders of the Preference Shares should look only to the Company's assets for payments.

***An active market for the ADSs may fail to develop.***

The Company will apply to list the ADSs on the Official List and to have the ADSs admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market, but it has not applied for any listing in respect of the Preference Shares. Notwithstanding such listing, there can be no assurance that an active market for the ADSs will develop and, if such a market were to develop, there can be no assurance that an active market will continue. The liquidity and the market prices for the ADSs can be expected to vary with changes in market and economic conditions generally and in the Company's financial condition and prospects in particular, as well as in response to other factors that generally influence the market prices of securities.

***Implications of holding Preference Shares in registered form.***

Preference Shares in the form of share warrants to bearer are capable of being surrendered in exchange for Preference Shares in registered form, though such exchanges are not anticipated. Prospective investors should note that, generally, a transfer of (or agreement to transfer) Preference Shares in registered form is subject to UK stamp duty, or SDRT, at the rate of 0.5% payable by the transferee (although such a charge to SDRT may be cancelled if an instrument transferring the Preference Shares is executed and duly stamped within the applicable time limits). Furthermore, UK stamp duty, or SDRT, would, subject to certain exceptions, be generally payable at the rate of 1.5% of the value of each Preference Share in registered form on any instrument pursuant to which Preference Shares are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts. There should be no such stamp duty or SDRT on a transfer of or agreement to transfer ADSs in respect of Preference Shares in bearer form, provided that the Preference Shares or ADSs are listed on the Official List and admitted to trading on the London Stock Exchange at the time of the transfer and the transfer is not made in contemplation of, or as part of an arrangement for, a takeover of the Company. This tax treatment may mean that Preference Shares in registered form trade separately from Preference Shares which are represented by

ADRs, and consequently there may be an increased risk of illiquidity in relation to any Preference Shares held in registered form.

***Disadvantages associated with withdrawal of underlying Preference Shares.***

The Preference Shares will be represented by a share warrant to bearer in the form of the Global Preference Share. If a holder chooses to take delivery of the Preference Shares underlying its ADSs, provided the Preference Shares are not transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, neither UK stamp duty nor SDRT should be payable at the rate of 1.5% on the exchange. However, a subsequent transfer of (or unconditional agreement to transfer) Preference Shares in registered form is subject to 0.5% UK stamp duty or SDRT as described in the paragraph under the sub-heading “Implications of holding Preference Shares in registered form” above. In exchanging ADSs for registered Preference Shares, a holder will also be exchanging listed for unlisted securities, which are likely to be less liquid and marketable than the ADSs.

***If the Company does not make payments on its other preferred securities, the Company may not be permitted to pay dividends on the Preference Shares.***

Under the terms of the Company’s Existing Dollar Preference Shares, if any dividend on the Existing Dollar Preference Shares (as defined in “Description of Preference Shares”) is not paid in full on a dividend payment date (or a sum is not set aside to provide for its payment in full), the Company may not declare, pay or distribute interest, any dividend or other payment on the Preference Shares or any other Tier 1 Capital under a dividend restriction on materially the same terms as that described in “Description of Preference Shares.”

## **Selected Consolidated Financial Information**

The following tables set forth summary financial information relating to the Group for the periods indicated.

The summary financial information presented in this section has been derived from the Group's audited consolidated financial statements as of and for the year ended December 31, 2006 and the year ended December 31, 2005 (including restated comparative figures as of and for the year ended December 31, 2004), each prepared in accordance with IFRS, and the Group's audited consolidated financial statements as of and for the years ended December 31, 2004, 2003 and 2002 prepared in accordance with UK GAAP. The audited consolidated financial statements as of and for the year ended December 31, 2006 prepared in accordance with IFRS are contained in Annex C to this Offering Circular. The audited consolidated financial statements as of and for the year ended December 31, 2005 (including restated comparative figures as of and for the year ended December 31, 2004) prepared in accordance with IFRS are contained in Annex D to this Offering Circular. The summary financial information in the tables below should be read in conjunction with such financial statements and the notes thereto.

For more information on the Group's audited consolidated financial statements and the preparation thereof, see also "Presentation of Financial and Other Information" and "Introduction of IFRS".

There are certain differences between UK GAAP and IFRS and, as a result, the UK GAAP financial information presented as of and for the years ended December 31, 2004, 2003 and 2002 is not directly comparable to the IFRS financial information presented as of and for the year ended December 31, 2006 and the year ended December 31, 2005 (and the restated comparative figures as of and for the year ended December 31, 2004). See note 55 to the Group's audited consolidated financial statements as of and for the year ended December 31, 2005 in Annex D to this Offering Circular for a description of certain differences between UK GAAP and IFRS. In addition, UK GAAP and IFRS differ in certain respects from US GAAP. For a description of certain differences between IFRS and US GAAP, see "Description of Certain Differences Between IFRS and US GAAP" in this Offering Circular.

As of and for the year ended  
December 31,

|                                                                                | 2006<br>(\$million) | 2005<br>(\$million) | *2004<br>(\$million) | 2004<br>(\$million) | 2003<br>(\$million) | 2002<br>(\$million) |
|--------------------------------------------------------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
|                                                                                | IFRS                |                     |                      | U.K. GAAP           |                     |                     |
| Operating profit before impairment losses and taxation .....                   | 3,824               | 3,050               | 2,533                | 2,371               | 2,097               | 1,982               |
| Impairment losses on loans and advances and other credit risk provisions ..... | (629)               | (319)               | (214)                | (214)               | (536)               | (712)               |
| Other impairment .....                                                         | (15)                | (50)                | (68)                 | (1)                 | (11)                | (8)                 |
| Profit before taxation .....                                                   | 3,178               | 2,681               | 2,251                | 2,156               | 1,550               | 1,262               |
| Profit attributable to parent company's shareholders .....                     | 2,278               | 1,946               | 1,578                | 1,479               | 1,024               | 844                 |
| Loans and advances to banks .....                                              | 19,724              | 21,701              | 16,687               | 18,922              | 13,354              | 16,001              |
| Loans and advances to customers .....                                          | 139,330             | 111,791             | 72,019               | 71,596              | 59,744              | 57,009              |
| Total assets .....                                                             | 266,047             | 215,096             | 147,124              | 141,688             | 120,202             | 112,953             |
| Deposits by banks .....                                                        | 26,233              | 18,834              | 15,162               | 15,813              | 10,924              | 10,850              |
| Customer accounts .....                                                        | 147,382             | 119,931             | 85,093               | 84,572              | 73,767              | 71,626              |
| Total parent company shareholders' equity                                      | 16,853              | 11,882              | 9,105                | 8,435               | 7,529               | 7,270               |
| Total capital resources <sup>1</sup> .....                                     | 30,096              | 22,682              | 16,837               | 16,123              | 14,110              | 12,974              |
| <b>Information per ordinary share<sup>2</sup></b>                              |                     |                     |                      |                     |                     |                     |
| Basic earnings per share (cents) .....                                         | 169.0¢              | 148.5¢              | 129.6¢               | 121.2¢              | 82.0¢               | 57.6¢               |
| Normalized earnings per share (cents) <sup>3</sup> .....                       | 170.7¢              | 153.7¢              | 124.6¢               | 125.9¢              | 90.1¢               | 74.9¢               |
| Dividends per share (cents) .....                                              | 71.04¢              | 64.0¢               | 57.5¢                | 57.5¢               | 52.0¢               | 47.0¢               |
| Net asset value per share (cents) .....                                        | 1,208.5¢            | 897.3¢              | 719.0¢               | 658.3¢              | 588.0¢              | 569.8¢              |
| <b>Ratios</b>                                                                  |                     |                     |                      |                     |                     |                     |
| Return on ordinary shareholders' equity-normalized basis <sup>3</sup> .....    | 16.9%               | 18.0%               | 18.6%                | 20.1%               | 15.7%               | 13.4%               |
| Cost-income ratio – normalized basis <sup>3</sup> .....                        | 55.2%               | 54.5%               | 54.0%                | 53.5%               | 53.6%               | 53.6%               |
| Capital ratios:                                                                |                     |                     |                      |                     |                     |                     |
| Tier 1 capital .....                                                           | 8.4%                | 7.7%                | 8.6%                 | 8.6%                | 8.6%                | 8.3%                |
| Total capital .....                                                            | 14.3%               | 13.6%               | 15.0%                | 15.0%               | 14.5%               | 14.2%               |

1 Shareholders' equity, minority interests and subordinated liabilities and other borrowed funds.

2 Information per ordinary share is calculated using the weighted average number of shares outstanding in the relevant year.

3 Results on a normalized basis reflect the Group's results, excluding profits and losses of a capital nature, amortisation of intangible assets arising on business combinations, charges for restructuring and profits and losses on repurchase of share capital. Please see note 12 to the Group's audited consolidated financial statements as of and for the year ended December 31, 2006 in Annex C for a reconciliation of normalized earnings per share to basic earnings per share.

\* Comparative figures for year ended December 31, 2004 have been restated in accordance with IFRS and exclude the effects of IAS 32 and 39. See "Introduction of IFRS" in this Offering Circular for more information.

## Capitalization and Indebtedness

The tables below set out the consolidated capitalization of the Group as at December 31, 2006, prepared in accordance with IFRS.

|                                                                                                                       | As at<br>December 31,<br>2006<br>(\$million) |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <b>Authorized share capital</b>                                                                                       |                                              |
| Ordinary shares of \$0.50 each.....                                                                                   | 1,316                                        |
| Non-cumulative irredeemable preference shares of £1.00 each .....                                                     | 979                                          |
| Non-cumulative redeemable preference shares of \$5.00 each.....                                                       | 1,500                                        |
| Non-cumulative preference shares of €1,000 each .....                                                                 | 1,318                                        |
| <b>Total Authorized share capital</b> .....                                                                           | <b>5,113</b>                                 |
| <b>Shareholders' equity</b>                                                                                           |                                              |
| Allotted, called-up and fully paid share capital                                                                      |                                              |
| Ordinary shares .....                                                                                                 | 692                                          |
| Preference shares .....                                                                                               | 0                                            |
| Share premium <sup>8</sup> .....                                                                                      | 3,539                                        |
| Merger Reserve <sup>8</sup> .....                                                                                     | 3,149                                        |
| Reserves and retained earnings .....                                                                                  | 9,473                                        |
| <b>Total Shareholders' equity</b> .....                                                                               | <b>16,853</b>                                |
| <b>Subordinated loan capital</b>                                                                                      |                                              |
| \$400 million Primary Capital Floating Rate Notes <sup>1</sup> .....                                                  | 400                                          |
| \$300 million Primary Capital Floating Rate Notes (Series 2) <sup>1</sup> .....                                       | 300                                          |
| \$400 million Primary Capital Floating Rate Notes (Series 3) <sup>1</sup> .....                                       | 400                                          |
| \$200 million Primary Capital Floating Rate Notes (Series 4) <sup>1</sup> .....                                       | 200                                          |
| £150 million Primary Capital Floating Rate Notes <sup>1</sup> .....                                                   | 294                                          |
| £30 million Floating Rate Notes due 2009 <sup>1</sup> .....                                                           | 58                                           |
| £300 million 6.75 per cent. Notes due 2009.....                                                                       | 526                                          |
| €600 million 5.375 per cent. Notes due 2009.....                                                                      | 710                                          |
| \$700 million 8.0 per cent. Subordinated Notes due 2031 .....                                                         | 724                                          |
| €500 million 8.16 per cent. non-cumulative Trust Preferred Securities (callable 2010) <sup>6</sup> .....              | 674                                          |
| £600 million 8.103 per cent. Step-Up Callable Perpetual Trust Preferred Securities (callable 2016) <sup>7</sup> ..... | 1,342                                        |
| £200 million 7.75 per cent. Step-Up Notes (callable 2022).....                                                        | 454                                          |
| \$350 million 4.375 per cent. Notes 2014 (Floating rate from 2009).....                                               | 340                                          |
| HKD (Hong Kong Dollars) 500 million 3.5 per cent. Notes 2014 (Floating rate from 2009) .....                          | 63                                           |
| HKD 670 million Floating Rate Notes 2014.....                                                                         | 80                                           |
| €750 million 3.625 per cent. (Floating rate from 2012) Subordinated rates 2017.....                                   | 946                                          |
| \$500 million Floating Rate Notes due 2015 <sup>1</sup> .....                                                         | 499                                          |
| \$500 million Floating Rate Notes due 2016 <sup>1</sup> .....                                                         | 498                                          |
| \$154 million Subordinated Debt due 2013 .....                                                                        | 148                                          |
| \$92 million Subordinated Debt due 2013 .....                                                                         | 92                                           |
| KRW (South Korean Won) 205 billion Subordinated Debt due 2009 .....                                                   | 218                                          |
| KRW 160 billion Subordinated Debt due 2008 .....                                                                      | 167                                          |
| KRW 136 billion Subordinated Debt due 2007 .....                                                                      | 146                                          |
| KRW 104 billion Subordinated Debt due 2007 .....                                                                      | 109                                          |
| KRW 30 billion Subordinated Debt due 2011 .....                                                                       | 32                                           |
| KRW 27 billion Subordinated Debt due 2008 .....                                                                       | 29                                           |
| KRW 3 billion Subordinated Debt due 2011 .....                                                                        | 3                                            |
| BWP (Botswana Pula) 75 million Floating Rate Notes due 2012.....                                                      | 13                                           |
| BWP 50 million Fixed and Floating Rate Subordinated Notes due 2015 .....                                              | 8                                            |
| TZS (Tanzanian Schilling) 8 billion Subordinated Notes due 2015 .....                                                 | 6                                            |
| €675 million Floating Rate Notes 2018.....                                                                            | 885                                          |
| \$100 million Floating Rate Notes 2018.....                                                                           | 100                                          |
| IDR 500 billion Floating Rate Notes 2016 .....                                                                        | 24                                           |
| PKR 750 million Floating Rate Notes 2008.....                                                                         | 11                                           |
| PKR 750 million Floating Rate Notes 2011.....                                                                         | 12                                           |
| PKR 1 billion Floating Rate Notes 2015 .....                                                                          | 17                                           |
| TWD 8 billion Floating Rate Notes 2007 .....                                                                          | 246                                          |
| TWD 10 billion undated Floating Rate Notes.....                                                                       | 306                                          |
| £675 million 5.375 per cent. undated step up Subordinated Notes (callable 2020).....                                  | 1,252                                        |
| <b>Total Subordinated loan capital</b> .....                                                                          | <b>12,332</b>                                |
| <b>Other borrowings</b>                                                                                               |                                              |
| £96 million 7.375 per cent. irredeemable preference shares .....                                                      | 180                                          |
| £99 million 8.25 per cent. irredeemable preference shares.....                                                        | 187                                          |
| <b>Total Other borrowings</b> .....                                                                                   | <b>367</b>                                   |
| <b>Total Capitalization and Indebtedness</b> .....                                                                    | <b>29,552</b>                                |

- (1) These notes bear interest rates fixed periodically based on London interbank rates.
- (2) All subordinated loan capital described above is unsecured, unguaranteed and subordinated to the claims of other creditors including, without limitation, customer deposits and deposit by banks.
- (3) Liabilities denominated in foreign currencies are translated into US dollars at market exchange rates prevailing at December 31, 2006. The exchange rates used were £1.00 = \$1.9579; €1.00 = \$1.3182; \$1.00 = HKD 7.7790; \$1.00 = BWP 6.0354; \$1.00 = KRW 929.8786; \$1.00 = TZS 1264.5.
- (4) Contingent liabilities amounted to \$27,390 million as at December 31, 2006, of which \$18,344 million related to guarantees and irrevocable letters of credit.
- (5) The total amount of all other borrowings and indebtedness as at December 31, 2006 was \$204 billion, comprising deposits by banks \$28 billion, customer accounts \$149 billion and other debt securities in issue such as certificates of deposits was \$27 billion.
- (6) Standard Chartered Bank has agreed that it will pay in full on a subordinated basis to the holders of the €500 million 8.16% non-cumulative partnership preferred securities issued by Standard Chartered Capital 1 L.P. (the "Partnership") definitive dividends and amounts payable on redemption and liquidation to the extent that such amounts are not paid by the Partnership.
- (7) These securities are redeemable at the option of Standard Chartered Bank on or after May 11, 2016 on any interest payment date.
- (8) The share premium account was restated in 2005 to transfer to the merger reserve the premium arising on the shares issued in conjunction with the acquisition of Standard Chartered First Bank. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued in conjunction with the acquisition of Hsinchu International Bank.

Changes in the total capitalization and indebtedness since December 31, 2006 are disclosed below:

On April 12, 2007, Standard Chartered (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 April 26, 2007, Standard Chartered Bank issued £300 million (\$596 million) 6 per cent. Lower Tier 2 Step Up Dated Subordinated Notes, which have a maturity of 11 years with an issuer's call option after six years.

Except as disclosed in this Section "Capitalization and Indebtedness", there has been no material change in the authorized and issued share capital and no material change in total capitalization and indebtedness and contingent liabilities (including guarantees) of the Group as set out in the above table since December 31, 2006.

## **Use of Proceeds**

The proceeds from the sale of the ADSs, less the underwriting compensation and expenses payable by the Company, are estimated to be approximately \$743,625,000. The proceeds will be used by the Company for the general business purposes of the Group, which may include acquisitions.

## **Description of the Company**

Standard Chartered, the ultimate holding company of Standard Chartered Bank, was incorporated and registered in England and Wales on November 18, 1969 as a company limited by shares. Its Ordinary Shares and Existing Preference Shares are listed on the Official List and traded on the London Stock Exchange. Standard Chartered's Ordinary Shares are also listed on the Hong Kong Stock Exchange. The Company operates under the Companies Acts 1985 and 2006 and its registered office and principal place of business in the United Kingdom is at 1 Aldermanbury Square, London EC2V 7SB, telephone number 020 7280 7500. This address is also the business address of each of the directors of Standard Chartered. Standard Chartered's registered number is 966425.

Standard Chartered Bank was incorporated in England with limited liability by Royal Charter in 1853. Standard Chartered Bank's issued share capital comprises ordinary shares, all of which are owned by Standard Chartered Holdings Limited, a company incorporated in England and Wales, non-cumulative irredeemable preference shares, all of which are owned by Standard Chartered Capital Investments LLC, a company incorporated in the United States and non-cumulative redeemable preference shares, all of which are owned by Standard Chartered. It is intended that Standard Chartered Bank will issue non-cumulative redeemable preference shares on June 1, 2007, as explained in "Recent Developments" below. Standard Chartered Bank's principal office and its principal place of business in the United Kingdom is at 1 Aldermanbury Square, London EC2V 7SB. Standard Chartered Bank's reference number is ZC18.

The Group is an international banking and financial services group particularly focused on the markets of Asia, Africa and the Middle East. The Group has a network of over 1,400 branches and offices in over 50 countries and territories and almost 60,000 employees.

The Group, through Standard Chartered Bank and its subsidiaries, operates two business divisions: Consumer Banking and Wholesale Banking.

### **Business Divisions**

#### ***Consumer Banking***

Consumer Banking serves over 14 million customers across Asia, Africa and the Middle East where it has the competitive advantage to build significant market positions over time while delivering strong financial performance. It provides a wide range of innovative products and services such as credit cards, personal loans, mortgages, deposit taking and wealth management services to individuals and small and medium enterprises. Consumer Banking's innovative products and channels set Standard Chartered apart from the competition in many of its markets.

#### ***Wholesale Banking***

Wholesale Banking provides corporate and institutional clients with services in trade finance, cash management, lending, securities services, foreign exchange, debt capital markets and corporate finance. Its focus is on a client-driven business and being the leading international bank of choice in Asia, Africa and the Middle East, providing responsive, innovative and creative solutions to all its clients.

### **Geographic Markets**

The Group's network covers Asia Pacific, the Middle East, South Asia, Africa and the Americas and the United Kingdom.

#### ***Hong Kong***

For the year ended December 31, 2006, Hong Kong-based activities contributed approximately \$1,615 million to the Group's total operating income and, for December 31, 2005, Hong Kong-based activities contributed \$1,484 million to the Group's total operating income.

Hong Kong is the Group's largest market by income and profitability and the Group had 70 branches and corporate offices and 4,825 employees based in Hong Kong as at December 31, 2006.

#### ***Singapore, Malaysia and Other Asia Pacific Regions***

For the year ended December 31, 2006, Singapore, Malaysia and other Asia Pacific business contributed approximately \$2.4 billion to the Group's operating income. For the year ended December 31 2005, these same geographies contributed about \$1.9 billion to the Group's operating income.

Singapore is one of the Group's top five markets by pre-tax operating profits and Standard Chartered Bank was among the first four foreign banks in Singapore to be awarded a Qualifying Full Bank (QFB) license in October 1999.

As at December 31, 2006, the Group had 19 branches and corporate offices and over 3,300 employees in Singapore and 36 branches and corporate offices and over 4,000 employees in Malaysia. The Group continues to be well positioned in a range of fast-expanding markets in the Asia Pacific region. In China the Group expanded the network and produced strong organic income growth. The acquisition of Hsinchu International Bank made Standard Chartered the largest international bank in Taiwan. In Indonesia, Standard Chartered increased its stake in PT Bank Permata, reinforcing its position as the country's largest international bank. As at December 31, 2006, the Group had 472 branches and corporate offices and over 11,600 employees in the Asia Pacific region including countries like Thailand, Indonesia and Taiwan.

#### ***Korea***

The Group acquired Korea First Bank, a major banking group in the Republic of Korea (South Korea) in April 2005, completing the rebranding as SC First Bank in September 2005. In November 2005, Standard Chartered Bank's branch business in South Korea was integrated with SC First Bank. The acquired business contributed operating income of \$1,522 million and operating profit before tax of \$454 million to the Group in 2006.

As at December 31, 2006, the Group had 403 branches and corporate offices and over 6,000 employees in South Korea.

#### ***India***

In India (including Nepal), the Group operates the country's largest international bank in terms of branches and had 95 branches and corporate offices and over 15,000 employees as at December 31, 2006.

In 2005, the Group strengthened its commitment to India by launching a consumer finance business. India's contribution to the Group's total operating income was \$817 million for the year ended December 31, 2006 and \$593 million for the year ended December 31, 2005.

#### ***Middle East and other South Asia***

For the year ended December 31, 2006, Middle East and other South Asia contributed \$1,070 million to the Group's operating income. For the year ended December 31, 2005 Middle East and other South Asia contributed \$812 million to the Group's operating income.

In the United Arab Emirates, the Group operates a larger branch network than any other international bank.

In Pakistan, Standard Chartered is the leading international bank with the most extensive branch network following its acquisition and successful integration of Union Bank.

As at December 31, 2006, the Group had 186 branches and over 7,000 employees in the Middle East and other South Asia countries and territories.

#### ***Africa***

The Group offers Consumer Banking and Wholesale Banking services in Africa. Its core African markets are Botswana, Ghana, Kenya, Zambia and Uganda, with significant markets also in South Africa and Nigeria. For the year ended December 31, 2006, operations in Africa contributed \$640 million to the Group's operating income compared with \$553 million in 2005. The Group had 129 branches and offices and over 5,000 employees based in Africa as at December 31, 2006.

#### ***Americas & United Kingdom***

The Group's principal activities in the Americas and the United Kingdom are focused on serving clients with needs in Asia, Africa and the Middle East, offering specialized products to multinational organizations. In New York, the Group is one of the leading clearers of US dollar payments. The Group's Head Office in London provides governance and regulatory standards across the Standard Chartered network.

For the year ended December 31, 2006, the Group's operations in the Americas and the United Kingdom contributed \$579 million (2005: \$556 million) to the Group's operating income.

As at December 31, 2006, the Group had 14 branches and corporate offices and almost 2,000 employees in the Americas and the United Kingdom.

## **Subsidiaries**

As at December 31, 2006, Standard Chartered's principal subsidiaries comprised Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited, Standard Chartered First Bank Korea Limited, Standard Chartered Bank Malaysia Berhad, Standard Chartered Bank (Thai) Public Company Limited, Standard Chartered Receivables (UK) Limited, Standard Chartered Financial Investments Limited, Standard Chartered Debt Trading Limited, Standard Chartered Bank (Pakistan) Limited, Hsinchu International Bank, and Standard Chartered Capital Management (Jersey) LLC.

Currently, all the above are directly or indirectly wholly owned subsidiaries of Standard Chartered, except Standard Chartered Bank (Thai) Public Company Limited, which is 99.97% owned by Standard Chartered Bank, Standard Chartered Bank (Pakistan) Limited, which is 99% owned by Standard Chartered Bank and Hsinchu International Bank, which is 98.5% owned by Standard Chartered Bank. Hsinchu International Bank will become a wholly owned subsidiary of Standard Chartered Bank on June 1, 2007, pursuant to a share swap agreement entered into by Standard Chartered Bank and Hsinchu International Bank as further explained in "Recent Developments" below.

## **Recent Developments**

On March 19, 2007, Standard Chartered Bank and Hsinchu International Bank entered into a share swap agreement whereby Standard Chartered Bank would, on June 1, 2007, issue and allot up to 50,000,000 non-cumulative redeemable preference shares of NT\$24.5 each to the ordinary shareholders of Hsinchu International Bank on the share register on May 28, 2007. The ratio for this share swap will be one non-cumulative redeemable preference share in Standard Chartered Bank for each ordinary share in Hsinchu International Bank.

The Group incorporated Standard Chartered Bank (China) Limited ("SCB China") on March 29, 2007 and transferred its China Branches into SCB China on April 1, 2007, which allows the bank to enter into local currency business with retail customers in China. Standard Chartered was one of the first foreign banks to incorporate in China, demonstrating its commitment to the China market and its leading position as a foreign bank in the banking industry.

On May 1, 2007, Standard Chartered announced that Mr John Peace and Mr Sunil Bharti Mittal had been appointed as independent Non-executive Directors of Standard Chartered with effect from August 1, 2007. Mr Peace will become Deputy Chairman and also the Senior Independent Director from the date of his appointment. It was further announced that Rudy Markham would step down as Senior Independent Director with effect from August 1, 2007. Mr Markham would remain as an independent Non-executive Director and as chairman of the Audit and Risk Committee.

## Description of Preference Shares

The following description of the terms and provisions of the Preference Shares does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Articles and resolutions of a duly authorised committee of the Board passed on May 18, 2007 where the terms of, and rights attaching to, the Preference Shares are contained. For so long as any of the ADSs are outstanding, copies of the aforementioned documents may be obtained during normal business hours at the specified office of the Depositary and at the registered office of the Company. The principal rights attaching to the Preference Shares are summarized below. Defined terms used in this section have the meanings given to such terms under “Additional Definitions” below.

### General

The Preference Shares will have a nominal value of US\$5 each and will be issued at a premium of \$99,995 fully paid for cash (so that the total paid up amount of each Preference Share will be \$100,000). The Preference Shares will rank *pari passu inter se* and *pari passu* with the Existing Preference Shares (except, in the case of the Existing Sterling Preference Shares, as to certain powers of the Board in relation to payment of dividends and other distributions) and in priority to the Ordinary Shares.

The Company may issue additional preference shares, without the consent of the holders of the Preference Shares, which may be consolidated and form a single class with the Preference Shares.

### Dividends

- (i) Subject to the limitations, discretions and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the profits of the Company available for distribution and permitted by law to be distributed, in priority to the payment of any dividend to the holders of Ordinary Shares but *pari passu inter se* and *pari passu* with the holders of the Existing Preference Shares (except to the extent that the exercise by the Board of its powers under sub-paragraph (ii)(c) results in dividends not being payable on the Preference Shares where dividends or other distributions are payable or due on any of the Existing Sterling Preference Shares under their terms of issue, in which case the Existing Sterling Preference Shares shall rank ahead of the Preference Shares as regards payment of such dividends or other distributions), a non-cumulative preferential dividend, which will accrue from the Issue Date and will be payable (A) semi-annually in arrear on January 30 and July 30 of each year until July 30, 2037 (each a “Semi-Annual Dividend Payment Date”), provided that if any Semi-Annual Dividend Payment Date is not a business day, payment shall be postponed to the next business day without penalty or interest accruing in respect of such delay and thereafter (B) quarterly in arrear on January 30, April 30, July 30 and October 30 of each year subject to adjustment in accordance with the Modified Following Business Day Convention (each a “Quarterly Dividend Payment Date” and together with the Semi-Annual Dividend Payment Dates, the “Dividend Payment Dates”) to those holders of Preference Shares whose names appear on the register of members of the Company on the fifteenth calendar day preceding such Dividend Payment Date. In respect of the period from, and including, the Issue Date, to, but excluding, the first Semi-Annual Dividend Payment Date, the dividend payable on the Preference Shares will amount to \$4,773.42 per Preference Share. Dividends will accrue and will be payable when, as, and if, declared by the Board on the paid up amount of \$100,000 per Preference Share. Subject to paragraph (ii) below, dividends shall only be paid to the extent that payment can be made out of the profits of the Company available for distribution and permitted by law to be distributed. Any right to receive a dividend on the Preference Shares will be non-cumulative.

Payments in respect of dividends on Preference Shares will be made by check drawn on a bank in New York or, upon the request of the holder or joint holders, by transfer to an account maintained by the payee with a bank in New York. All payments in respect of dividends will be made after complying in all respects with any applicable fiscal or other laws.

- (ii) (a) If on any Dividend Payment Date the profits of the Company available for distribution are, in the opinion of the Board, insufficient to enable payment in full to be made of the dividend which would otherwise fall to be payable on such Dividend Payment Date, then none of such dividend shall be payable.

- (b) If, in the opinion of the Board, the payment of any dividend on the Preference Shares would breach or cause a breach of the capital adequacy requirements then applicable under Applicable Banking Regulations to the Company, the Group or any subsidiary or associated undertaking of the Company, then none of such dividend shall be payable.
- (c) Without prejudice to paragraphs (ii)(a) and (b) above, if on any Dividend Payment Date the Board determines that the dividend which would otherwise be payable on such Dividend Payment Date (the “Relevant Dividend”) should not be paid, then none of the Relevant Dividend shall be payable.
- (iii) If it shall subsequently appear that any dividend on the Preference Shares which has been paid should not have been paid, then, provided the Board shall have acted in good faith, it shall not incur any liability for any loss which any holder of Preference Shares may suffer in consequence of such payment having been made.
- (iv) If a dividend on the Preference Shares is not paid for the reasons specified in sub-paragraph (ii) above, the holders of such shares shall have no claim in respect of such non-payment.
- (v) Any dividend unclaimed after a period of 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company and the payment by the Board of any unclaimed dividend or other sum payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect of it.
- (vi) If any dividend on the Preference Shares is not paid in full on a Dividend Payment Date (the “Relevant Dividend Payment Date”) (or a sum is not set aside to provide for its payment in full), the Dividend Restriction and Redemption Restriction shall apply.
- (vii) Except as described in this Offering Circular, holders of Preference Shares will have no right to participate in the profits of the Company.

#### **Payment of Dividends**

Subject to the limitations, discretions, and qualifications set out herein, the Company will pay dividends on the Preference Shares out of its distributable profits in US Dollars:

- (a) at the rate of 7.014% per annum on the paid up amount of \$100,000 per Preference Share in respect of the Dividend Periods from, and including, the Issue Date to, but excluding, July 30, 2037 (the “Fixed Rate Dividend Period”). During the Fixed Rate Dividend Period, dividends will be payable semi-annually in equal instalments in arrear on the Semi-Annual Dividend Payment Dates, commencing on January 30, 2008 and ending on July 30, 2037, on the basis of 30 day months and a 360 day year. The dividend on each Preference Share during any such full semi-annual Dividend Period will therefore amount to \$3,507.00 except in respect of the Dividend Period from the Issue Date to, but excluding, the first Semi-Annual Dividend Payment Date, which will amount to \$4,773.42; and
- (b) at the rate per annum equal to 1.46% plus Three Month LIBOR on the paid up amount of \$100,000 per Preference Share in respect of the Dividend Periods from, and including, July 30, 2037 to, but excluding, the date on which the Preference Shares are redeemed (the “Floating Rate Dividend Period”). During the Floating Rate Dividend Period, dividends will be payable quarterly in arrear on the Quarterly Dividend Payment Dates. In respect of the Floating Rate Dividend Period, the amount of dividend accruing in respect of any Dividend Period will be calculated on the basis that the actual number of days in the Dividend Period in respect of which payment is being made is divided by 360.

In respect of any dividend payable upon a winding up of the Company, where the number of days in the period in respect of which such dividend is to be paid is fewer than or greater than a full Dividend Period, the amount of dividend accruing in respect of any such period will be calculated on the basis that the actual number of days in such period is divided by 360.

#### **Capital**

On a winding-up or other return of capital (other than a redemption, reduction or purchase by the Company of any of its issued shares), the assets of the Company available to shareholders shall be applied, in priority to any payment to the holders of Ordinary Shares, *pari passu inter se* and *pari passu* with the holders of the Existing Preference Shares and in priority to or *pari passu* with the holders of any other class of shares in issue (other than shares which may be issued by the Company and which, may by their terms rank in priority to the Preference Shares in a winding-up or other

return of capital), in payment to the holders of the Preference Shares of a sum equal to the aggregate of:

- (i) an amount equal to dividends accrued thereon for the then current Dividend Period to the date of the commencement of the winding-up or other return of capital, but only to the extent that any such amount was, or would have been, payable as a cash dividend;
- (ii) an amount equal to any dividend thereon which has been resolved to be paid on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a Dividend Period ending on or before such date; and
- (iii) the amount paid up on such Preference Shares.

If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any other class of shares in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares as regards participation in assets, the holders of the Preference Shares and the holders of those other shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled. The Preference Shares confer no rights to participate in the surplus assets of the Company other than as described in this Offering Circular.

### **Redemption**

The Company may, subject to the Companies Act and all other laws and regulations applying to the Company, to the Articles and to the prior consent of the FSA (if such consent is required, in which case, the FSA may impose conditions on the redemption), upon not less than 30 nor more than 60 days' notice, redeem the Preference Shares in whole or in part on July 30, 2037, and on any Quarterly Dividend Payment Date falling on or around ten year intervals thereafter (each such date on which a Preference Share may be redeemed being a "Redemption Date"). Redemption will be effected in the manner provided in the Articles (including, in relation to a redemption of only some of the Preference Shares, by the drawing of lots to determine the Preference Shares to be redeemed). There shall be paid on each Preference Share so redeemed the aggregate of:

- (i) an amount paid up on such share; and
- (ii) the dividend accrued for the period from, and including, the Dividend Payment Date last preceding the Redemption Date to, but excluding, the Redemption Date, but only to the extent that any such amount was, or would have been, payable as a cash dividend.

### **Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to the prior consent of the FSA (if such consent is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities (as defined below), on any Dividend Payment Date (the "Substitution Date") without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must deliver to the Registrar a certificate, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and, that an independent bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

**"Qualifying Non-Innovative Tier 1 Securities"** means securities whether debt, equity, interests in limited partnerships or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying

to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by \$100,000, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from, and including, the Dividend Payment Date last preceding the Substitution Date to, but excluding, the Substitution Date; and

- (b) are admitted to trading on the London Stock Exchange or such other stock exchange as is a recognized stock exchange.

#### ***U.S. Federal Income Tax Consequences of a Substitution***

*If the Company substitutes the Preference Shares with Qualifying Non-Innovative Tier 1 Securities, the United States federal income tax consequences are uncertain, because such consequences will depend on all of the terms and conditions of such Qualifying Non-Innovative Tier 1 Securities. In general, such substitution will likely be a taxable exchange for United States federal income tax purposes, unless a specific exception applies. In the event that such a substitution does constitute a taxable exchange, a US holder (as defined in this Offering Circular under "Taxation—United States Federal Income Taxation") would generally recognize taxable gain or loss in an amount equal to the difference between such US holder's adjusted tax basis in such Preference Shares surrendered and the fair market value of the Qualifying Non-Innovative Tier 1 Securities received in the substitution. Any gain or loss recognized would be characterized as capital gain or loss, and would be long-term capital gain or loss if a US holder has a holding period in the Preference Shares of more than one year and the Preference Shares were capital assets in the hands of such US holders for United States Federal income tax purposes. The result of this treatment is that US holders will likely have to include amounts in taxable income in respect of a substitution, even though no cash will actually be distributed to holders pursuant to a substitution. A US holder would generally have a tax basis in the Qualifying Non-Innovative Tier 1 Securities equal to their fair market value on the date received; however, it is not possible to describe the United States federal income tax consequences to holders of acquiring, holding or disposing of Qualifying Non-Innovative Tier 1 Securities until the terms and conditions of such securities are established. Prospective holders should consult with their own tax advisor about the potential tax consequences to them of a substitution and of acquiring, holding, and disposing of Qualifying Non-Innovative Tier 1 Securities.*

#### **Voting**

- (i) The holders of Preference Shares shall not be entitled to attend or vote at any general meeting of the Company except:
  - (a) where the dividend which is (or, but for the provisions described in subparagraph (ii) under the heading "Dividends" above, would be) most recently payable on such shares shall not have been paid in full; or
  - (b) where a resolution is to be proposed at the meeting varying or abrogating any of the rights, preferences, privileges, limitations or restrictions attached to any class of shares of which such shares form part (and then only to speak and vote upon any such resolution).
- (ii) Whenever holders of Preference Shares are entitled to vote on a resolution, on a show of hands every such holder who is present in person shall have one vote and on a poll every such holder who is present in person or by proxy shall have one vote in respect of each Preference Share held by him.

The bearer of a share warrant in respect of Preference Shares shall not be entitled to attend or vote, personally or by proxy, unless the share warrant has been deposited with the Company and the Company has delivered a certificate in exchange. Subject as described above, the certificate shall entitle such person, either personally or by proxy, to attend and vote at any general meeting of the Company at which the holder is entitled to attend and vote held within three months of the date of the certificate and prior to the return of the certificate to the Company, in the same way as if the holder were the registered holder of Preference Shares specified in the certificate.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **Purchases**

Subject to the provisions of the Companies Act and all other laws and regulations applying to the Company, the Company may purchase or may enter into a contract under which it will or may purchase all or any of its shares of any class, including any redeemable shares. Neither the Company nor the Board shall be required to select the shares to be purchased rateably or in any other particular manner as between the holders of shares of the same class or as between them, and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares. No repurchase of Preference Shares will be made without the prior consent of the FSA (if required) and any such Preference Shares repurchased would be cancelled by the Company.

## **Form**

The Preference Shares will be represented by a share warrant to bearer, within the meaning of the Companies Act, in the form of a single global share warrant to bearer (the “Global Preference Share”) which will be deposited with the Depositary or its nominee under the Deposit Agreement. The Company may consider the Depositary to be a single holder of Preference Shares so deposited for all purposes. See “Description of American Depositary Shares” and “Provisions relating to the Preference Shares while represented by the Global Preference Share”.

Title to Preference Shares represented by a share warrant to bearer will pass by delivery of the relevant bearer share warrant without any written transfer and without registration. Subject to the Articles and the Companies Act, the bearer of any share warrant for the Preference Shares shall be deemed to be a member of the Company and shall be entitled to the same privileges and advantages as it would have had if the bearer’s name had been included in the Company’s register of members as the holder of the Preference Shares specified in the warrant. See “Provisions relating to the Preference Shares while represented by the Global Preference Share” below.

Upon the surrender by the bearer of a share warrant, together with the outstanding dividend coupons (if any) in respect thereof, to the Company for cancellation and delivery of an application in writing signed by the bearer, in any form which the Directors approve, requesting that the bearer of the share warrant should be entered as a member in the register of members in respect of the Preference Shares included in the share warrant, the bearer of a share warrant shall be entitled to have his name entered as a member in the register of members of the Company in respect of the Preference Shares included in the share warrant and shall receive a certificate in such holder’s name. However, the Company shall in no case be responsible for any loss or damage incurred by any person by reason of the Company entering in its register of members upon the surrender of a warrant the name of any person who is not the true and lawful owner of the warrant surrendered.

Title to the Preference Shares in registered and certificated form (if any) will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, among other matters, that transfers of the Preference Shares in certificated form must be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by or on behalf of the transferor.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favor of not more than four joint transferees; and
- (c) is deposited at the registered office of the Company, or such other place as the Board may from time to time determine, accompanied by the relevant share certificate(s) and any other evidence the Directors may reasonably require to show the right of the person executing the transfer to make the transfer.

No fee is payable to the Company for transferring shares and any registration of a transfer is subject in all respects to the Articles.

## **Provisions relating to the Preference Shares while represented by the Global Preference Share**

Payments in respect of any amount payable by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share will be made to, or to the order of, the Depositary or its nominee, as bearer of the Global Preference Share. The Depositary shall be the

only person entitled to receive payments by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share. See “Description of the American Depositary Receipts” for a description of payments by the Depositary to the holders of ADSs.

The Global Preference Share is exchangeable in whole or in part by the Depositary for Preference Shares in registered form. Upon surrender of ADSs by any holder of ADSs in exchange for Preference Shares, the Depositary will request the exchange of the Global Preference Share for Preference Shares in registered form to the extent of such holder’s request. Upon such exchange, the holder of ADSs surrendered for exchange will receive Preference Shares in registered form and the Depositary will receive a new Global Preference Share representing the remaining Preference Shares not issued in registered form. See “Description of the American Depositary Receipts”.

The exchange of Preference Shares represented by a share warrant to bearer (including the Global Preference Share) for Preference Shares in registered form will also be subject to applicable UK tax laws and regulations in effect at the time of the exchange. No exchange will be made unless any resulting taxes, stamp duties or other governmental charges have been paid to the Company. Preference Shares in registered form will not be exchangeable, in whole or in part, for Preference Shares represented by a share warrant to bearer.

#### **Variation of Rights and Further Issues**

- (i) Except with the written consent of the holders of three-quarters in nominal value of the Preference Shares then in issue, or with the sanction of a special resolution passed at a separate general meeting of the holders of Preference Shares then in issue, the Board shall not authorize or create, or increase the amount of, any shares of any class or any security convertible into shares of any class ranking as regards participation in the profits or assets of the Company (other than on a redemption or purchase by the Company of any such share) in priority to the Preference Shares.
- (ii) The Company shall be entitled at any time and from time to time and without any consent or sanction of the holders of the Preference Shares to create and issue further preference share capital ranking as regards participation in the profits and assets of the Company after or *pari passu* with the Preference Shares. Such creation and issue shall be deemed not to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares and for the avoidance of doubt such rights shall not be deemed to be varied by the alteration of any of the provisions, other than provisions as to *pari passu* ranking, set out in the Articles in respect of any unissued preference shares. Any further series of preference shares ranking, as regards participation in profits or assets, *pari passu* with the Preference Shares may, without their creation or issue being deemed to vary the special rights attaching to the Preference Shares, either carry identical rights in all respects with the Preference Shares or carry rights differing therefrom in any respect including, but without prejudice to the foregoing, in that:
  - (a) the rate and/or basis of calculating dividends may differ and the dividend may be cumulative or non-cumulative;
  - (b) such shares may rank for dividends as from such date as may be provided by the terms of issue thereof and the dates for payment of dividends may differ;
  - (c) such shares may be denominated in any currency or, if permitted by law, any basket of currencies;
  - (d) a premium may be payable on return of capital or there may be no such premium;
  - (e) such shares may be redeemable at the option of the Company or may be non-redeemable;
  - (f) such shares may carry a right to additional shares by way of capitalization of profits or reserves; and
  - (g) such shares may be convertible into Ordinary Shares or any other class of shares ranking as regards participation in the profits and assets of the Company *pari passu* with or after the Preference Shares, in each case on such terms and conditions as may be prescribed by the terms of issue thereof.

#### **Governing Law**

The creation and issue of the Preference Shares and the rights attached to them are governed by, and shall be construed in accordance with, English law.

## Additional Definitions

“*Applicable Banking Regulations*” means at any time the capital adequacy regulations, guidelines and policies then in effect of the FSA.

“*Articles*” means the Articles of Association of the Company, as in effect from time to time.

“*Board*” means the Board of Directors from time to time or any authorized committee thereof.

“*business day*” means a day (other than a Saturday or Sunday) on which banks in London and the City of New York are open for business and on which foreign exchange dealings may be conducted in such cities.

“*Companies Act*” means Companies Act 1985 or, where applicable, Companies Act 2006, as such acts may be amended, modified or re-enacted from time to time.

“*Directors*” means the directors of the Company from time to time.

“*Dividend Period*” means the period from, and including, a Dividend Payment Date (or the Issue Date) to, but excluding, the next succeeding Dividend Payment Date.

“*Dividend Restriction*” means that:

- (a) the Company shall not declare or pay a dividend on its Ordinary Shares for a one year period commencing on the Relevant Dividend Payment Date;
- (b) (i) the Company shall not, and shall procure that Standard Chartered Bank shall not, declare, pay or distribute interest, any dividend or other payment (other than interest or a dividend or other payment declared, paid or distributed by Standard Chartered Bank to the Company, any holding company of the Company or to another wholly owned subsidiary of the Company) on any of its then issued Tier 1 Capital (other than the Existing Sterling Preference Shares) or make any payment on a Tier 1 Guarantee;
- (ii) the Company shall procure that no payment is made by any subsidiary of the Company on any security (howsoever named or designated) benefiting from a Tier 1 Guarantee

in each case, for the following periods:

- (x) where the relevant Tier 1 Capital (or, in the case of a payment on a Tier 1 Guarantee, the Tier 1 Capital to which that Tier 1 Guarantee relates) pays interest, dividends or other payments quarterly or more frequently, for a period of six calendar months commencing on the Relevant Dividend Payment Date if the Relevant Dividend Payment Date is on or before the Dividend Payment Date on July 30, 2037, and thereafter for a period of three calendar months commencing on the Relevant Dividend Payment Date;
- (y) where the relevant Tier 1 Capital (or, in the case of a payment on a Tier 1 Guarantee, the Tier 1 Capital to which that Tier 1 Guarantee relates) pays interest, dividends or other payments semi-annually, for a period of six calendar months commencing on the Relevant Dividend Payment Date; and
- (z) in any other case, for a period of one year commencing on the Relevant Dividend Payment Date,

provided that the foregoing shall not prevent the Company, Standard Chartered Bank or any subsidiary of the Company, nor oblige the Company to procure that any of them are so prevented, from:

- (1) satisfying any obligation to make an interest, dividend or other payment through an allotment and issue of shares; or
- (2) declaring, paying or distributing any interest, dividend or other payment which is funded by the proceeds of an issue of shares for such purpose.

“*Existing Dollar Preference Shares*” means the series of 6.409% non-cumulative redeemable preference shares of \$5 each (aggregate paid up amount of \$750,000,000).

“*Existing Preference Shares*” means the Existing Sterling Preference Shares and the Existing Dollar Preference Shares.

“*Existing Sterling Preference Shares*” means the Company’s outstanding series of 8¼% non-cumulative irredeemable preference shares of £1 each (aggregate paid up amount of £99,250,000) and

the 7<sup>3</sup>/<sub>8</sub>% non-cumulative irredeemable preference shares of £1 each (aggregate paid up amount of £96,035,000).

“FSA” means the Financial Services Authority of the United Kingdom and, if any successor governmental authority succeeds to the bank regulatory functions of the Financial Services Authority in the United Kingdom, such successor governmental authority; *provided, however*, that if Standard Chartered Bank becomes domiciled in a jurisdiction other than the United Kingdom, then each reference herein to the FSA shall be deemed instead to refer to the governmental authority having primary regulatory authority with respect to Standard Chartered Bank’s capital adequacy in such other jurisdiction.

“*Modified Following Business Day Convention*” means if a Quarterly Dividend Payment Date falls on a day which is not a business day, such Quarterly Dividend Payment Date shall be postponed to the next day which is a business day unless it would fall into the next calendar month in which event such Quarterly Dividend Payment Date shall be brought forward to the immediately preceding day which is a business day.

“*Redemption Date*” has the meaning set forth under “Description of Preference Shares–Redemption”.

“*Redemption Restriction*” means that (without the written consent of a majority in nominal value of, or the sanction of an extraordinary resolution passed at a separate general meeting of, the holders of the Preference Shares) for a one year period commencing on the Relevant Dividend Payment Date:

- (a) the Company shall not redeem, reduce, purchase or otherwise acquire for any consideration any of its Ordinary Shares;
- (b) the Company shall not, and shall procure that Standard Chartered Bank shall not, redeem, purchase or otherwise acquire for consideration any of its Tier 1 Capital; and
- (c) the Company shall procure that no subsidiary of the Company redeems, purchases or otherwise acquires for consideration any security benefiting from a Tier 1 Guarantee.

“*Registrar*” means the registrar for the time being of the Preference Shares.

“*Relevant Dividend*” has the meaning set forth under “Description of Preference Shares – Dividends”.

“*Relevant Dividend Payment Date*” has the meaning set forth under “Description of Preference Shares – Dividends”.

“*Tier 1 Capital*” has the meaning assigned to such term (i) in Section 2.2 of Chapter 2 of The General Prudential Sourcebook published by the FSA, as amended, supplemented or replaced from time to time, or (ii) in any successor Applicable Banking Regulations.

“*Tier 1 Guarantee*” means any guarantee, indemnity or other contractual support arrangement entered into by Standard Chartered Bank or the Company in respect of the securities (regardless of name or designation) issued by a subsidiary of the Company which create Tier 1 Capital of Standard Chartered Bank or the Company.

“*Three Month LIBOR*”, means the three month London interbank offered rate for deposits in US dollars which appears on page 3750 of Moneyline Telerate as of 11:00 a.m., London time, on the second business day in London prior to the first day of the relevant Dividend Period or, in the case of the first such Dividend Period, if such first day is not a business day, on the second business day in London prior to the business day immediately preceding such first day; provided that, if at such time, no such rate appears or the relevant Moneyline Telerate page is unavailable, it shall mean the rate calculated by the Company as the arithmetic mean of at least two offered quotations obtained by the Company after requesting the principal London offices of each of four major reference banks in the London interbank market, to provide the Company with its offered quotation for deposits for three months in US dollars commencing on the first day of the relevant Dividend Period to prime banks in the London interbank market at approximately 11:00 a.m., London time, on the second business day in London prior to the first day of the relevant Dividend Period and in a principal amount that is representative for a single transaction in US dollars in that market at that time; provided further that if fewer than two such offered quotations are provided as requested, it shall mean the rate calculated by the Company as the arithmetic mean of the rates quoted at approximately 11:00 a.m., New York time, on the second business day in New York prior to the first day of the relevant Dividend Period, by three major banks in New York selected by the Company

for loans for three months in US dollars to leading European banks and in a principal amount that is representative for a single transaction in US dollars in that market at that time; provided however that if the banks selected by the Company, are not quoting as mentioned above, it shall mean three month US dollar LIBOR in effect on the second business day in London prior to the first day of the relevant Dividend Period.

## **Description of American Depositary Shares**

The following description of the ADSs, the ADRs and the Deposit Agreement (as defined herein) does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Deposit Agreement. Terms used but not otherwise defined shall have the meanings set forth in the Deposit Agreement.

The following is a summary of the material provisions of the Deposit Agreement, dated as of December 8, 2006 and amended on May 18, 2007 (as amended, the “Deposit Agreement”), among the Company, the Depositary and the registered holders (“Rule 144A Holders”) and beneficial owners (“Rule 144A Beneficial Owners”) from time to time of Rule 144A ADRs, pursuant to which the Rule 144A ADSs are to be issued and the registered holders (“Regulation S Holders”) and beneficial owners (“Regulation S Beneficial Owners”) from time to time of Regulation S ADRs, pursuant to which the Regulation S ADSs are to be issued. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to the Deposit Agreement, including the form of Rule 144A ADRs and Regulation S ADRs. Terms used in this description and not otherwise defined shall have the meanings set forth in the Deposit Agreement. Copies of the Deposit Agreement will be available for inspection at the Corporate Trust Office of the Depositary, currently located at 4 New York Plaza, 15th Floor, New York, New York 10004, and at the principal London office of JPMorgan Chase Bank, N.A., the custodian and agent of the Depositary under the Deposit Agreement (the “Custodian”). The Depositary’s principal executive office is located at 4 New York Plaza, 15th Floor, New York, New York 10004. Unless the context otherwise requires, references herein to ADRs and ADSs apply equally to the Rule 144A ADRs and the Regulation S ADRs and to the Rule 144A ADSs and the Regulation S ADSs, respectively. The Depositary operates as a banking corporation under the New York State Banking Law.

### **American Depositary Receipts**

JPMorgan Chase Bank, N.A., as Depositary will issue the Rule 144A ADSs and Regulation S ADSs to holders in this offering pursuant to the Deposit Agreement. Each Rule 144A ADS will be evidenced by a Rule 144A ADR and represent one Preference Share deposited with the Custodian and registered in the name of the Depositary or its nominee (such Preference Shares, together with any additional Preference Shares at any time deposited or deemed deposited under the Deposit Agreement and any other securities, cash or other property received by the Depositary or the Custodian in respect of such Preference Shares, the “Rule 144A Deposited Securities”). Each Regulation S ADS will be evidenced by a Regulation S ADR and represent one Preference Share deposited with the Custodian and registered in the name of the Depositary or its nominee (such Preference Shares, together with any additional Preference Shares at any time deposited or deemed deposited under the Deposit Agreement and any other securities, cash or other property received by the Depositary or the Custodian in respect of such Preference Shares, the “Regulation S Deposited Securities” and, together with the Rule 144A Deposited Securities, the “Deposited Securities”). The ADSs and ADRs may be issued in one or more series in connection with the issuance of preference shares of different series. Only persons in whose names ADRs are registered on the books of the Depositary will be treated as holders of such ADSs.

The Depositary shall have sole discretion as to whether any ADSs may trade in book-entry or certificated form. The Depositary may enter into a Letter of Representations with The Depositary Trust Company, for acceptance of the Rule 144A ADSs and Regulation S ADSs. The Company will make application with the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) for acceptance of the Regulation S ADSs.

So long as the Rule 144A ADSs are traded through DTC’s book-entry settlement system, all Rule 144A ADSs shall be evidenced by a single global ADR (the “Master Rule 144A ADR”) registered in the name of DTC or its nominee and held by DTC or a custodian for DTC on behalf of its participants, and no person shall receive or be entitled to receive delivery of certificated Rule 144A ADRs and ownership of beneficial interests in the Master Rule 144A ADR will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee with respect to institutions having accounts with DTC (“DTC Participants”).

So long as the Regulation S ADSs are traded through the book-entry systems of Euroclear or Clearstream, Luxembourg, unless otherwise required by law, (i) all Regulation S ADSs shall be evidenced by a single global Regulation S ADR (the “Master Regulation S ADR” and together with the Master Rule 144A ADR, the “Master ADRs”), registered in the name of DTC or its nominee

and held by DTC or a custodian for DTC on behalf of its participants, and no person shall receive or be entitled to receive delivery of certificated Regulation S ADRs and (ii) ownership of beneficial interests in the Master Regulation S ADR will be shown on, and the transfer of such ownership will be effected only through, records maintained by participants within Euroclear and/or Clearstream, Luxembourg.

Each Master ADR shall evidence the number of ADSs from time to time indicated in the records of the Depositary for such Master ADR and shall be endorsed with such legends as may be required to conform with applicable laws, rules and regulations. Where the context requires, the term “ADRs” includes the Master ADRs and ADSs include an interest in a Master ADR.

If the ADSs cease to trade through DTC’s and/or Euroclear’s and Clearstream, Luxembourg’s book-entry settlement system, the Company may make other arrangements acceptable to the Depositary for book-entry settlement of the ADSs or shall instruct the Depositary to make certificated ADRs, substantially in the form of the Rule 144A ADR and Regulation S ADR, respectively, with such appropriate changes to the forms thereof and the Deposit Agreement as the Depositary and the Company may agree, available upon appropriate instructions from the registered holders of the Master ADRs.

Because a nominee of the Depositary will actually be the registered owner of the Preference Shares, holders of ADSs must rely on it to exercise the rights of shareholders on their behalf, in all cases only in the manner specified in the Deposit Agreement. The obligations of the Depositary and its agents are set out in the Deposit Agreement. The Deposit Agreement, the ADSs and the ADRs are governed by New York law.

*Each owner from time to time of any beneficial interest in a Master ADR (a “beneficial owner”) must rely upon the procedures, as in effect from time to time, of DTC, Euroclear and Clearstream, Luxembourg, as the case may be, to exercise or be entitled to any rights of an ADR holder including, but not limited to, receiving dividends and other distributions, making transfers of interests in the Master ADRs, surrendering portions thereof to withdraw the Preference Shares, exercising voting rights and receiving certain reports and notices from the Company. Beneficial owners should make arrangements so that all communications in respect of the ADRs can be promptly forwarded to such beneficial owner.*

#### **Dividends and Other Distributions**

The Depositary has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian receives on the deposited Preference Shares, after deducting any charges and fees provided for in the Deposit Agreement. ADS holders will receive these distributions in proportion to the number of underlying Shares that their ADSs represent.

Except as stated below, to the extent the Depositary is legally permitted it will deliver such distributions to registered holders of ADRs in proportion to their interests in the following manner:

- **Cash.** The Depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an averaged or other practicable basis, subject to (i) appropriate adjustments for taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain registered holders, and (iii) deduction of the Depositary’s expenses in (1) converting any foreign currency to U.S. dollars to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the Depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner. The Depositary may make adjustments to a distribution if any of the deposited Preference Shares is not entitled, by reason of its date of issuance, or otherwise, to receive the full amount thereof. *If exchange rates fluctuate during a time when the Depositary cannot convert a foreign currency, ADS holders may lose some or all of the value of the distribution.*
- **Preference Shares.** In the case of a distribution in Preference Shares or dividend of Preference Shares, the Depositary will issue additional ADSs representing such Preference Shares. Only whole ADSs will be issued. Any Preference Shares which would result in fractional ADSs will be sold and the net proceeds will be distributed to the ADR holders entitled thereto.

- *Rights to receive additional Preference Shares.* In the case of a distribution of rights to subscribe for additional Preference Shares or other rights, if the Company provides satisfactory evidence that the Depositary may lawfully distribute such rights, the Depositary may arrange for ADR holders or beneficial owners of an interest in a Master ADR to instruct the Depositary as to the exercise of such rights. However, if the Company does not furnish such evidence or if the Depositary determines it is not practical to distribute such rights, the Depositary may:
  - sell such rights if practicable and distribute the net proceeds as cash; or
  - allow such rights to lapse, in which case ADS holders will receive nothing.
- *Other Distributions.* In the case of a distribution of securities or property other than those described above, the Depositary may either (i) distribute such securities or property in any manner it deems equitable and practicable, (ii) to the extent the Depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash, or (iii) hold the distributed property in which case the ADSs will also represent the distributed property.

Any US dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. Fractional cents will be withheld without liability and dealt with by the Depositary in accordance with its then current practices.

The Depositary may choose any practical method of distribution for any specific ADR holder or beneficial owner of an interest in a Master ADR, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing them, on behalf of the ADR holder as Deposited Securities.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders or beneficial owners of interests in a Master ADR.

*There can be no assurances that the Depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, Preference Shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.*

#### **Deposit, Withdrawal and Cancellation**

The Depositary will issue ADSs if the Preference Shares or evidence of rights to receive Preference Shares are deposited with the Custodian. In the case of the ADSs to be issued under this Offering Circular, the Company will arrange with the underwriters named herein to deposit such Preference Shares.

Preference Shares deposited in the future with the Custodian must be accompanied by certain documents, including instruments showing that such Preference Shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made, a delivery order directing the Depositary to issue ADSs to the person designated in such order, instruments assigning to the custodian any distribution on the Preference Shares so deposited and proxies entitling the custodian to vote the deposited Preference Shares.

At all times before Rule 144A ADSs will be issued and, in the case of Regulation S ADSs, during the Distribution Compliance Period described below, before ADSs will be issued holders of ADSs will be required to make certain certifications described below. See “Notice to Investors”.

The Custodian will hold all deposited Preference Shares (including those being deposited by or on the Company’s behalf in connection with the offering to which this Offering Circular relates) for the account of the Depositary. ADS holders thus have no direct ownership interest in the Preference Shares and only have such rights as are contained in the Deposit Agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited Preference Shares.

Upon each deposit of Preference Shares, receipt of related delivery documentation and compliance with the other provisions of the Deposit Agreement, including the payment of the fees and charges of the Depositary and any taxes or other fees or charges owing, the Depositary will issue an ADR or adjust its records to increase the number of ADSs evidenced by the applicable Master ADR.

Subject to the requirements of the Deposit Agreement and the provisions governing the Preference Shares of the Company (including, without limitation, the Company’s constituent documents and applicable law), ADS holders may seek to withdraw Preference Shares represented by

their ADSs and receive such Preference Shares, upon payment of certain applicable fees, charges and taxes, and upon receipt of proper instructions and documentation by the Depositary.

In connection with any surrender of an ADR or an interest therein for withdrawal and the delivery or sale of the Deposited Securities represented by the ADSs evidenced thereby, the Depositary may require proper endorsement in blank of such certificated ADRs or duly executed instruments of transfer in blank and written order from the ADS holder directing the Depositary to cause the Deposited Securities to be withdrawn and delivered to, or upon the written order of such ADS holder.

At the risk, expense and request of an ADS holder, the Depositary may deliver Deposited Securities at such other place as the holder may request.

Prior to each cancellation of Rule 144A ADS, holders seeking to cancel such Rule 144A ADSs will be required to make certain certifications described below. During the Distribution Compliance Period described below, holders seeking to cancel Regulation S ADSs will also be required to make certain certifications. See “Notice to Investors”.

### **Voting Rights**

As soon as practicable after receipt from the Company of notice of any meeting or solicitation of consents or proxies of holders of Preference Shares or other Deposited Securities, the Depositary shall distribute to registered holders a notice stating (a) such information as is contained in such notice and any solicitation materials (or a summary thereof), (b) that each such holder on the record date set by the Depositary therefor will, subject to any applicable provisions of law, be entitled to instruct it as to the exercise of the voting rights, if any, pertaining to the Deposited Securities represented by the ADSs held by such holder and (c) the manner in which such instructions may be given, including instructions to give a discretionary proxy to a person designated by the Company. Upon receipt of instructions of such holder in the manner and on or before the date established by the Depositary for such purpose, the Depositary shall endeavor insofar as practicable and permitted under the provisions of or governing Deposited Securities to vote or cause to be voted the Deposited Securities represented by the ADSs in accordance with such instructions. The Depositary will not itself exercise any voting discretion in respect of any Deposited Securities.

There is no guarantee that holders generally or any holder in particular will receive the notice described above with sufficient time to enable such holder to return any voting instructions in a timely manner.

### **Record Dates**

The Depositary may fix record dates for the determination of the registered holders of ADRs who will be entitled:

- to receive a dividend, distribution or rights, or
- to give instructions for the exercise of voting rights at a meeting of holders of Preference Shares or other Deposited Securities or to act in any other matter.

The Depositary may also fix record dates for the determination of the registered holders of ADRs who will be responsible for any fees assessed by the Depositary for administration of the ADR program and for any expenses provided for in the Deposit Agreement.

In all cases, record date determination and entitlements and obligations with respect thereto are subject to the provisions of the Deposit Agreement.

### **Available Information**

The Deposit Agreement, the provisions of or governing Deposited Securities and any written communications from the Company, which are both received by the Custodian or its nominee as a holder of Preference Shares and made generally available to the holders of such Preference Shares, are available for inspection by registered holders of ADRs at the offices of the Depositary and the Custodian. If, at any time prior to the termination of the Deposit Agreement (in the case of the Rule 144A ADSs) or, in the case of the Regulation S ADSs, during the Distribution Compliance Period, the Company is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Company will provide to any holder or beneficial owner of ADSs or of Preference Shares, and to any prospective purchaser of ADSs or of Preference Shares, upon request of any such holder, beneficial owner or

prospective purchaser, the information required by Rule 144A(d)(4)(i) under the Securities Act and otherwise comply with Rule 144A(d)(4) under the Securities Act.

### **Fees and Expenses**

The following charges may be charged to the ADR holders, to any party depositing or withdrawing Preference Shares or to any party surrendering ADSs or to whom ADSs (or an interest in a Master ADR) are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the ADSs or the Deposited Securities or a distribution of ADRs), whichever is applicable:

- a fee of \$1.50 per ADR or ADRs for transfers of certificated ADRs made;
- a fee of \$.02 or less per ADS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement;
- a fee of \$.02 per ADS (or portion thereof) per year for services rendered by the Depositary in administering the Company's ADR program, which fee shall be assessed against holders of ADSs as of the record date or dates set by the Depositary not more than once each calendar year and shall be payable in the manner described in the next succeeding provision;
- any other charge payable by any of the Depositary, any of the Depositary's agents, including, without limitation, the Custodian, or the agents of the Depositary's agents in connection with the servicing of the Company's Preference Shares or other Deposited Securities (which charge shall be assessed against registered holders of ADSs as of the record date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such registered holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities, such fee being in an amount equal to the fee for the issuance of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were Preference Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to those entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at the request of ADS holders;
- transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities;
- expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such currency); and
- such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation.

The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary. The fees described above may be amended from time to time.

### **Payment of Taxes**

ADS holders must pay any tax or other governmental charge payable by the Custodian or the Depositary on or with respect to any ADS or ADR (or beneficial interest in a Master ADR), deposited security or distribution. If ADS holders owe any tax or other governmental charge, the Depositary may (i) deduct the amount thereof from any cash distributions, or (ii) sell Deposited Securities and deduct the amount owing from the net proceeds of such sale. In either case ADS holders will remain liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the Depositary may also refuse to effect any registration, registration of transfer, adjustment of its records in respect of a Master ADR, split-up or combination or withdrawal of Deposited Securities. If any tax or governmental charge is required to be withheld on any non-cash distribution, the Depositary may sell the distributed property or securities to pay such taxes and distribute any

remaining net proceeds to the ADR holders entitled thereto. In connection with any distribution on Deposited Securities or to holders of ADRs, the Company and the Depositary will remit to the appropriate governmental authority or agency all amounts required to be withheld by it. By holding an interest in either Master ADR, holders of ADSs will be agreeing to indemnify the Company, the Depositary and the Custodian and their respective directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained.

#### **Reclassifications, Recapitalizations and Mergers**

If the Company takes certain actions that affect the Deposited Securities, including (i) any change in nominal value, split-up, consolidation, cancellation or other reclassification of Deposited Securities or (ii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of its assets, then the Depositary may choose to:

- amend the form of ADR;
- distribute additional or amended ADSs or ADRs;
- distribute cash, securities or other property it has received in connection with such actions;
- sell any securities or property received and distribute the proceeds as cash; or
- none of the above.

If the Depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the Deposited Securities and each ADS will then represent a proportionate interest in such property.

#### **Amendment and Termination**

The Deposit Agreement may be amended by the Company and the Depositary for any reason without the consent of ADS holders. Registered holders of ADRs must be given at least 30 days' notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or prejudices any substantial existing right of ADR holders. If a holder of an ADR continues to hold an ADR or ADRs after being so notified, such ADR holder is deemed to agree to such amendment. Notwithstanding the foregoing, an amendment can become effective before notice is given if this is necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair the right of ADS holders to surrender their ADSs and receive the underlying securities. If a governmental body adopts new laws or rules which require the Deposit Agreement or the ADS to be amended, the Company and the Depositary may make the necessary amendments, which could take effect before ADS holders receive notice thereof.

The Depositary may terminate the Deposit Agreement by giving the registered holder of ADRs at least 30 days' prior notice, and it must do so at the Company's request. The Deposit Agreement will be terminated on the removal of the Depositary for any reason. After termination, the Depositary's only responsibility will be (i) to deliver Deposited Securities to ADR holders who surrender their ADSs, and (ii) to hold or sell distributions received on Deposited Securities. As soon as practicable after the expiration of six months from the termination date, the Depositary will sell the Deposited Securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADSs. After making such sale, the Depositary shall have no obligations except to account for such proceeds and other cash. The Depositary will not be required to invest such proceeds or pay interest on them.

#### **Limitations on Obligations and Liability to ADR holders**

The Deposit Agreement expressly limits the obligations and liability of the Depositary, the Company and their respective agents. Neither the Company nor the Depositary nor any such agent will be liable if:

- present or future law, rule, or regulation of the United States, the United Kingdom or any other country or jurisdiction or of any other governmental or regulatory authority or any securities exchange or market or automated quotation system, the provisions of or governing any Deposited Securities, any present or future provision of the Company's charter, any act of

God, war, terrorism or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the Deposit Agreement or the ADRs provides shall be done or performed by it (including, without limitation, voting);

- it exercises or fails to exercise discretion under the Deposit Agreement or the ADRs;
- it performs its obligations without gross negligence or bad faith;
- it takes any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Preference Shares for deposit, any registered holder of ADRs, or any other person believed by it to be competent to give such advice or information; or
- it relies upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Neither the Depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or the ADRs. The Company and its agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or the ADRs, which in its opinion may involve it in expense or liability, if indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability is furnished as often as it requires.

Neither the Depositary nor its agents will be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, for the manner in which any such vote is cast or for the effect of any such vote. In no event shall the Company, the Depositary or any of their respective agents be liable to holders or beneficial owners of interests in the ADRs or any other third party for any indirect, special, punitive or consequential damages.

The Depositary and its agents may fully respond to any and all demands or requests for information maintained by or on its behalf in connection with the Deposit Agreement, any holder or holders, any ADR or ADRs or otherwise related hereto to the extent such information is requested or required by or pursuant to any lawful authority, including without limitation laws, rules, regulations, administrative or judicial process, banking, securities or other regulators.

The Depositary may own and deal in Deposited Securities and in ADSs.

#### **Disclosure of Interest in ADSs**

To the extent that the provisions of or governing any Deposited Securities may require disclosure of or impose limits on beneficial or other ownership of Deposited Securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, holders and beneficial owners of ADSs agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary in its compliance with any of the Company's instructions in respect thereof. The Company reserves the right to instruct holders of ADSs to deliver their ADSs for cancellation and withdrawal of the Deposited Securities so as to permit the Company to deal directly with the holders as shareholders.

#### **Requirements for Depositary Actions**

The Company, the Depositary or the Custodian may refuse to

- issue, register or transfer an ADR or ADRs or adjustments in the records of the Depositary for the number of ADSs evidenced by a Master ADR;
- effect a split-up or combination of ADRs or an adjustment in the records of the Depositary for the number of ADSs evidenced by a Master ADR;
- deliver distributions on any such ADRs or interests in a Master ADR; or
- permit the withdrawal of Deposited Securities (unless the Deposit Agreement provides otherwise), until the following conditions have been met:
  - the holder has paid all taxes, governmental charges, and fees and expenses as required in the Deposit Agreement;
  - the holder has provided the Depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature and such other information as the Depositary may deem necessary or proper, including without limitation information as to citizenship, residence, exchange control

approval, beneficial ownership of any securities, and compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement and the ADRs (including without limitation the restrictions on transfer appearing thereon); and

- the holder has complied with such regulations as the Depositary may establish under the Deposit Agreement.

The Depositary may also suspend the issuance of ADSs, the deposit of Preference Shares, the registration, transfer, split-up or combination of ADRs, adjustments in the records of the Depositary for the number of ADSs evidenced by a Master ADR or the withdrawal of Deposited Securities (unless the Deposit Agreement provides otherwise), if the register for ADRs or any Deposited Securities is closed or the Depositary decides it is advisable to do so.

### **Books of Depositary**

The Depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs. ADS holders may inspect such records at such office during regular business hours, but solely for the purpose of communicating with other holders in the interest of business matters relating to the Deposit Agreement.

The Depositary will maintain facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

### **Pre-release of ADSs**

The Depositary may issue ADSs prior to the deposit with the Custodian of Preference Shares (or rights to receive Preference Shares). This is called a pre-release of the ADSs. A pre-release is closed out as soon as the underlying Shares (or other ADSs) are delivered to the Depositary. The Depositary may pre-release ADSs only if:

- the Depositary has received collateral for the full market value of the pre-released ADSs; and
- each recipient of pre-released ADSs agrees in writing that it
  - beneficially owns the underlying Preference Shares,
  - assigns all beneficial rights in such Preference Shares to the Depositary,
  - holds such Preference Shares for the account of the Depositary, and
  - will deliver such Preference Shares to the Custodian as soon as practicable, and promptly if the Depositary so demands.

In general, the number of pre-released ADSs will not evidence more than 30% of all ADSs outstanding at any given time (excluding those evidenced by pre-released ADSs). However, the Depositary may change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for pre-released ADSs and its charges for issuance thereof.

### **Redemption**

To the extent the Company redeems any Deposited Securities, upon timely receipt from the Company of notice that it intends to exercise any such right of redemption in respect of any of the Deposited Securities, and an opinion of its counsel in form and substance acceptable to the Depositary, the Depositary will provide registered holders of ADRs with a notice setting forth the Company's intention to exercise such redemption rights and any other particulars set forth in its notice to the Depositary. Upon receipt of confirmation that the redemption has taken place and that funds representing the redemption price have been received, the Depositary shall notify registered holders of ADRs that they are required to surrender their ADSs for cancellation in order to receive the proceeds (net of applicable (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes). If less than all outstanding Deposited Securities are redeemed, the ADSs to be retired will be selected by lot or on a pro rata basis, as may be determined by the Depositary. The redemption price per ADS shall be the dollar equivalent of the per Preference Share amount received by the Depositary (adjusted to reflect the ADS(s)-to-Preference Share(s) ratio) upon the redemption of the Deposited Securities represented by ADSs (subject to the terms of the Deposit Agreement and the applicable fees and charges of, and expenses incurred by, the Depositary, and taxes) multiplied by the number of Deposited Securities then represented by each ADS redeemed.

**Governing Law**

The Deposit Agreement is governed by and shall be construed in accordance with the laws of the State of New York. In the Deposit Agreement, the Company has submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process on its behalf.

**JPMorgan Chase Bank, N.A.**

The Depositary is JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, National Association (“JPMCB”) is a wholly-owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation. JPMCB is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. The Depositary was incorporated on November 26, 1968 and its business is subject to examination and regulation, by the Office of the Comptroller of the Currency, a bureau of the United States Department of the Treasury. It is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation.

Effective July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase & Co., the surviving corporation in the merger, pursuant to the Agreement and Plan of Merger dated as of January 14, 2004.

Prior to November 13, 2004, JPMCB was in the legal form of a banking corporation organized under the laws of the State of New York and was named JPMorgan Chase Bank. On that date, it became a national banking association and its name was changed to JPMorgan Chase Bank, National Association (the “Conversion”). Immediately after the Conversion, Bank One, N.A. (Chicago) and Bank One, N.A. (Columbus) merged into JPMCB.

Additional information, including the most recent Form 10-K for the year ended December 31, 2006, of JPMorgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained from the Securities and Exchange Commission’s Internet site (<http://www.sec.gov>), or without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

## Taxation

### United States Federal Income Taxation

#### *Circular 230*

Any discussions of United States federal tax issues set forth in this Offering Circular were written in connection with the promotion and marketing of the transactions described in this Offering Circular. Such discussions were not intended or written to be legal or tax advice to any person and were not intended or written to be used, and they cannot be used, by any person for the purpose of avoiding any United States federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

#### *General*

The following is a summary of certain United States federal income tax consequences to US holders (as defined below) of the acquisition, ownership and disposition of Preference Shares or ADSs. Thus, this summary does not apply to beneficial owners of Preference Shares or ADSs that are not US holders. The summary does not purport to be a comprehensive description of all of the tax consequences of the acquisition, ownership and disposition of Preference Shares or ADSs. The summary applies only to a US holder that acquires the Preference Shares or ADSs in this offering and that holds the Preference Shares or ADSs as capital assets within the meaning of section 1221(a) of the Internal Revenue Code of 1986, as amended (the “Code”). This summary does not apply to US holders that are subject to special rules, including, but not limited to, a holder with a functional currency other than the US dollar, a holder that actually or constructively owns 10% or more of the Company’s voting stock, a tax-exempt organization, a bank, a financial institution, a real estate investment trust, a regulated investment company, a dealer in securities or currencies, an insurance company, a holder liable for the alternative minimum tax, a securities trader electing to account for its investment in the Preference Shares or ADSs on a mark-to-market basis, a holder that owns the Preference Shares or ADSs through a flow-thru entity, or a person holding the Preference Shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction or other integrated financial transaction.

If a partnership holds the Preference Shares or ADSs, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Thus, persons who are partners in a partnership holding the Preference Shares or ADSs and such partnership should consult their own tax advisors.

This summary is based on the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws and authorities are all subject to change, possibly on a retroactive basis. In addition, this summary is based in part upon the representations of the Depositary and the assumptions that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

For purposes of this summary, a “US holder” means a beneficial owner of Preference Shares or ADSs that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States federal income tax regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Certain trusts not described in clause (iv) above in existence on August 20, 1996 that elect to be treated as a United States person will also be a US holder for purposes of this summary.

All persons considering the purchase of the Preference Shares or ADSs should consult their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Preference Shares or ADSs arising under the laws of any other taxing jurisdiction.

**Each US holder should consult such holder’s own tax advisor concerning the United States federal, state and local, and other tax consequences to it of owning and disposing of the Preference Shares or ADSs.**

#### *Treatment of ADRs*

In general, a US holder of ADRs evidencing ADSs will be treated as the beneficial owner of the Preference Shares represented by those ADSs and evidenced by those ADRs for United States federal

income tax purposes. In general, deposits or withdrawals of Preference Shares by US holders in exchange for the ADRs evidencing those Preference Shares, and deposits or withdrawals of ADRs by US holders in exchange for Preference Shares, will not result in the recognition of gain or loss for United States federal income tax purposes.

### ***Taxation of Dividends***

In this summary, the term “dividends” is used to mean cash distributions (including amounts withheld in respect of UK withholding tax, if any) paid out of the Company’s current or accumulated earnings and profits, as determined for United States federal income tax purposes, with respect to Preference Shares or ADSs. In general, the gross amount of cash dividends will be included in the gross income of a US holder as ordinary income on the date on which the dividends are actually or constructively received by the US holder. Dividends paid by the Company will not be eligible for the dividends-received deduction allowed to corporations under the Code. The Company believes that it constitutes a “qualified foreign corporation” and that dividends paid by the Company to certain non-corporate US holders in taxable years beginning before January 1, 2011 generally will constitute “qualified dividend income” that will be taxable at a maximum tax rate of 15% provided that such US holders hold the Preference Shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date or, if the dividend is attributable to a period or periods aggregating over 366 days, provided that such US holders hold the Preference Shares or ADSs for more than 90 days during the 181-day period beginning 90 days before the ex-dividend date and meet other holding period requirements. Non-corporate US holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at this preferential rate.

Cash distributions in excess of the Company’s current or accumulated earnings and profits will be applied against and will reduce a US holder’s tax basis in the Preference Shares or ADSs and, to the extent the cash distribution is in excess of such tax basis, will be treated as gain from the sale or exchange of the Preference Shares or ADSs, with the consequences described below under the heading “Taxation of Capital Gains”.

Dividends paid on Preference Shares or ADSs generally will be treated for US foreign tax credit purposes as income from sources outside the United States. Dividends paid in taxable years beginning before January 1, 2007 generally will be “passive” or “financial services” income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on a US holder’s circumstances, be “passive” or “general” income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a US holder.

The calculation and availability of foreign tax credits, and in the case of a US holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a US holder’s particular circumstances. US holders should consult their own tax advisors regarding the availability of deductions or credits for foreign taxes. In addition, special rules apply in determining the amount of qualified dividend income taken into account for United States foreign tax credit limitation purposes.

### ***Taxation of Capital Gains***

A US holder will recognize gain or loss on the sale, exchange, redemption or other disposition of the Preference Shares or ADSs in an amount equal to the difference between the US holder’s adjusted tax basis in such Preference Shares or ADSs and the amount realized on the disposition, assuming in the case of a redemption that, after the redemption, the US holder does not own (and is not deemed, under applicable constructive stock ownership rules, to own) stock of the Company that would prevent the redemption from qualifying as an exchange under Section 302 of the Code. Such gain or loss generally will be treated as capital gain or loss. Any such capital gain or loss will be long-term capital gain or loss if the US holder has held the Preference Shares or ADSs for more than one year at the time of the disposition and generally will be treated as income or loss from sources within the United States for United States foreign tax credit purposes. Long-term capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15%. The deductibility of capital losses is subject to certain limitations. Investors are advised to consult their tax advisors to determine whether a redemption of Preference Shares will be treated as a dividend rather than as a payment in exchange for the Preference Shares.

If the Company substitutes the Preference Shares with Qualifying Non-Innovative Tier 1 Securities, the United States federal income tax consequences are uncertain because such consequences

will depend on all of the terms and conditions of such Qualifying Non-Innovative Tier 1 Securities. In general, such a substitution will likely be a taxable exchange for United States federal income tax purposes, unless a specific nonrecognition provision of the Code applies.

In the event that such a substitution does constitute a taxable exchange, a US holder would generally recognize taxable gain or loss in an amount equal to the difference between such holder's adjusted tax basis in such Preference Shares surrendered and the fair market value of the Qualifying Non-Innovative Tier 1 Securities received in the substitution. Any gain or loss recognized would be characterized as capital gain or loss, and would be long-term capital gain or loss if a US holder has a holding period in the Preference Shares of more than one year. The result of this treatment is that US holders will likely have to include amounts in taxable income in respect of a substitution, even though no cash will actually be distributed to holders pursuant to a substitution. A US holder would generally have a tax basis in the Qualifying Non-Innovative Tier 1 Securities equal to their fair market value on the date received; however, it is not possible to describe the United States federal income tax consequences to holders of acquiring, holding or disposing of Qualifying Non-Innovative Tier 1 Securities until the terms and conditions of such securities are established.

Alternatively, the substitution could be treated as a tax-free exchange if the specific requirements of one of the nonrecognition provisions of the Code were satisfied. The specific tax consequences of a substitution being treated as a tax-free exchange would depend on the nonrecognition provision applicable to the substitution.

It is possible that the United States federal income tax characterization and resulting tax treatment of any Qualified Non-Innovative Tier 1 Securities received in a substitution could be substantially different from the tax treatment of holding ADSs or Preference Shares. **Prospective holders should consult with their own tax advisor about the potential tax consequences to them of a substitution and of acquiring, holding, and disposing of Qualifying Non-Innovative Tier 1 Securities.**

#### ***Passive Foreign Investment Company Rules***

The Company believes that it was not a "passive foreign investment company" (a "PFIC") for United States federal income tax purposes for its most recent preceding taxable year and the Company does not expect to be considered a PFIC for the current taxable year or in the foreseeable future. However, because PFIC status depends upon the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were treated as a PFIC for any taxable year during which a US holder held Preference Shares or ADSs, certain materially adverse United States tax consequences could apply.

#### ***Information Reporting and Backup Withholding***

Dividends on, and proceeds from the sale or other disposition of, the Preference Shares or ADSs paid to a US holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the holder:

- establishes that it is an exempt holder, or
- in the case of backup withholding, provides an accurate taxpayer identification number on a properly completed Internal Revenue Service Form W-9 and certifies that no loss of exemption from backup withholding has occurred.

The amount of any backup withholding from a payment to a holder will be allowed as a credit against the US holder's United States federal income tax liability and may entitle such holder to a refund, provided that certain required information is furnished to the Internal Revenue Service.

#### **United Kingdom Taxation**

***The following is a summary of the current United Kingdom taxation treatment of the Preference Shares and ADSs. It relates only to the position of persons who are the absolute beneficial owners of the Preference Shares or ADSs and may not apply to certain classes of holders, such as dealers in securities. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.***

#### ***Taxation of Dividends***

The Company will not be required to make a withholding or deduction for or on account of UK tax when paying a dividend.

Holders of Preference Shares or ADSs who are resident in the United Kingdom for tax purposes and who receive a cash dividend from the Company will generally be entitled to a tax credit (the “Tax Credit”) (which may be set off against a holder’s total UK income tax liability on the dividend) equal to 1/9th of the amount of the cash dividend (or 1/10th of the aggregate of the dividend and the Tax Credit (the “Gross Dividend”). Certain holders (“eligible non-UK residents”) of Preference Shares or ADSs who are not resident in the UK for tax purposes may also be entitled to the Tax Credit; these holders include Commonwealth citizens, EEA nationals and residents of the Isle of Man and the Channel Islands.

Individual holders of Preference Shares or ADSs who are liable to UK income tax, other than at the higher rate, will be liable to UK tax on the Gross Dividend at the dividend ordinary rate of 10%. In this case, the Tax Credit will satisfy the whole of such holders’ UK income tax liability in respect of the cash dividend. Individual holders of Preference Shares or ADSs who are not liable to income tax in the United Kingdom in respect of the Gross Dividend will not be entitled to payment of the Tax Credit.

Individual holders of Preference Shares or ADSs who are liable to UK income tax at the higher rate will be liable to UK tax on the Gross Dividend at the dividend upper rate of 32.5%. After taking into account the Tax Credit, such individual holders will be liable to pay additional UK income tax at the rate of 22.5% of the Gross Dividend. Individuals who are higher rate taxpayers will therefore pay UK income tax at an effective tax rate of 25% of the cash dividend received.

Holders of Preference Shares or ADSs who are resident outside the United Kingdom for tax purposes (other than eligible non-UK residents) will not generally be able to claim payment of any part of the Tax Credit attaching to dividends paid by the Company, although this will depend on the existence and terms of any double tax treaty between the United Kingdom and the country in which the holder of Preference Shares or ADSs is resident for tax purposes.

Subject to the paragraph under the sub-heading “Taxation of Shares as Loan Relationships” below, corporate holders of Preference Shares or ADSs (other than share dealers) will not normally be liable to UK corporation tax on the amount of any dividend received from the Company.

Subject to the qualifications described above under the Section entitled “Description of Preference Shares” the Directors may allot and issue to each holder of Preference Shares additional Preference Shares in lieu of a cash dividend. Subject to the paragraph under the sub-heading “Taxation of Shares as Loan Relationships” below, the receipt of such additional Preference Shares will not be subject to UK corporation tax. In the case of an individual holder, the receipt of such additional Preference Shares will be taxable in the UK as a distribution but such a holder will not be entitled to the Tax Credit described above. However, such an individual holder will be treated as having paid income tax at the dividend ordinary rate on the value of the distribution.

### ***Taxation of Capital Gains***

The sale, or other disposal, of Preference Shares or ADSs may give rise to the realization of a gain for the purposes of UK taxation of chargeable gains.

An individual holder of Preference Shares or ADSs who is resident or ordinarily resident in the United Kingdom for tax purposes and who realizes such a gain may be liable to UK capital gains tax, depending on the holder’s circumstances and subject to any available exemption or relief.

Subject to the paragraph under the sub-heading “Taxation of Shares as Loan Relationships” below, a corporate holder of Preference Shares or ADSs who is resident in the United Kingdom for tax purposes and who realizes such a gain may be liable to UK corporation tax on chargeable gains, depending on the holder’s circumstances and subject to any available exemption or relief.

A holder of Preference Shares or ADSs who is not resident in the United Kingdom for tax purposes and who carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or, in the case of a company, a permanent establishment, may be subject to UK capital gains tax or corporation tax on a disposal of Preference Shares or ADSs which are used, held, or acquired for the purposes of the branch, agency, or permanent establishment, subject to any available exemption or relief. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the United Kingdom.

In calculating any gain or loss on disposal of Preference Shares or ADSs, sterling values are compared at acquisition and disposal. Accordingly, a taxable gain can arise even where the US Dollar amount received on disposal is less than or the same as the amount paid for the Preference Shares or ADSs.

### ***Taxation of Shares as Loan Relationships***

Under certain provisions introduced by the Finance (No. 2) Act 2005, it is possible that a holder of Preference Shares or ADSs subject to UK corporation tax would be taxed on a fair value income basis, and the positions outlined in the preceding paragraphs under the sub-headings “Taxation of Dividends” and “Taxation of Capital Gains” would not apply. Those provisions would not apply where the holder does not hold its Preference Shares or ADSs for a tax avoidance purpose.

### ***Inheritance Tax***

The Preference Shares will be assets situated in the United Kingdom for the purposes of UK inheritance tax. ADSs are likely to be treated in the same manner, as the underlying Preference Shares are situated in the UK. The death of an individual holder of Preference Shares or ADSs, or the death of an individual who has within a certain time period prior to his or her death made a gift of Preference Shares or ADSs, may (subject to certain exemptions and reliefs) result in a liability for UK inheritance tax even if such individual was neither domiciled in the United Kingdom nor deemed to be domiciled there under UK inheritance tax law. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and specific rules apply to gifts (1) in circumstances in which the donor reserves or retains some benefit, (2) to close companies and (3) to trustees of settlements.

### ***Stamp Duty and Stamp Duty Reserve Tax***

No UK stamp duty will be payable on the delivery of Preference Shares in bearer form to the custodian on behalf of the Depositary. Also, the Company understands that HM Revenue and Customs will not charge stamp duty reserve tax (“SDRT”) on the delivery of the Preference Shares in bearer form to the custodian on behalf of the Depositary. However, if this understanding proves to be incorrect, the Company will pay or procure the payment of such UK stamp duty or SDRT which becomes payable on the delivery of the Preference Shares in bearer form to the Custodian or the Depositary.

A transfer of a registered ADR (evidencing an ADS) which is executed and retained at all subsequent times outside the United Kingdom will not give rise to UK stamp duty and an agreement to transfer a registered ADR will not give rise to SDRT.

ADRs may be surrendered in exchange for Preference Shares in Registered Form.

Subject to certain exceptions, a transfer of Preference Shares in registered form would attract ad valorem UK stamp duty, and an unconditional agreement to transfer such Preference Shares would attract SDRT (provided that such a charge to SDRT may be cancelled if an instrument transferring the Preference Shares is executed and is duly stamped within the applicable time limits), generally at the rate of 0.5% (rounded up, in the case of stamp duty, to the nearest £5) on the amount or value of the consideration for the transfer. Generally, ad valorem stamp duty applies neither to gifts nor on a transfer from a nominee to the beneficial owner, although in cases of transfers where no ad valorem stamp duty arises, a fixed UK stamp duty of £5 may be payable.

UK stamp duty would, subject to certain exceptions, be payable at the rate of 1.5% (rounded up, in the case of stamp duty to the nearest £5) of the value of each Preference Share in registered form on any instrument pursuant to which Preference Shares are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts such as the Depositary. UK SDRT, at the same rate, could also be payable in these circumstances but no SDRT would be payable to the extent that stamp duty were paid.

## ERISA Considerations

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) (a “Plan”), should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before authorizing an investment in the Preference Shares, ADSs or ADRs. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, the Company and certain of its affiliates may be each considered a party in interest within the meaning of ERISA, or a disqualified person within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (also “Plans”). Prohibited transactions within the meaning of ERISA or the Code could arise, for example, if the Preference Shares, ADSs or ADRs are acquired by or with the assets of a Plan with respect to which Standard Chartered or any of Standard Chartered’s affiliates is a service provider or other party in interest, unless the Preference Shares, ADSs or ADRs are acquired pursuant to an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The US Department of Labor has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the Preference Shares, ADSs or ADRs. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), and PTCE 84-14 (for certain transactions determined by independent qualified asset managers).

Because the Company could be considered a party in interest with respect to many Plans, the Preference Shares, ADSs and ADRs may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include plan assets by reason of any Plan’s investment in the entity (a “Plan Asset Entity”) or any person investing plan assets of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the Preference Shares, ADSs or ADRs will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the Preference Shares, ADSs or ADRs that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with plan assets of any Plan or with any assets of a governmental or church plan that is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase, holding and disposition are eligible for exemptive relief or such purchase, holding and disposition are not prohibited by ERISA or Section 4975 of the Code (or in the case of a governmental or church plan, any substantially similar federal, state or local law).

Under ERISA, assets of a Plan may include assets held in the general account of an insurance company which has issued an insurance policy to such plan or assets of an entity in which the Plan has invested. Accordingly, insurance company general accounts that include assets of a Plan must ensure that one of the foregoing exemptions is available. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Preference Shares, ADSs or ADRs on behalf of or with plan assets of any Plan consult with their counsel regarding the availability of exemptive relief under PTCEs 96-23, 95-60, 91-38, 90-1 or 84-14. Purchasers of the Preference Shares, ADSs or ADRs have exclusive responsibility for ensuring that their purchase, holding and disposition of the Preference Shares, ADSs or ADRs do not violate the prohibited transaction rules of ERISA or the Code or any similar regulations applicable to governmental or church plans, as described above.

## Underwriting

Subject to the terms and conditions set forth in the purchase agreement, dated May 22, 2007, between the Company and the initial purchasers named below, the Company has agreed to issue to the initial purchasers, and each initial purchaser has severally agreed to purchase, the number of ADSs (each ADS representing one Preference Share), set forth opposite its name below:

| <i>Initial Purchasers</i>                               | <i>Number of<br/>ADSs</i> |
|---------------------------------------------------------|---------------------------|
| J.P. Morgan Securities Inc.....                         | 2,925                     |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated..... | 2,925                     |
| Standard Chartered Bank.....                            | 1,500                     |
| Goldman, Sachs & Co.....                                | 75                        |
| Lehman Brothers Inc.....                                | 75                        |
| Total.....                                              | <u>7,500</u>              |

Any sales made by Standard Chartered Bank in the United States or to U.S. persons shall be made through its agent, SCB Securities Limited, which is registered with the National Association of Securities Dealers, Inc.

The purchase agreement provides that the obligations of the initial purchasers are subject to certain conditions precedent and that the initial purchasers have undertaken to purchase all of the Preference Shares in the form of ADSs if any are subscribed for.

The initial purchasers initially propose to offer the ADSs representing the Preference Shares at a price of \$750,000,000, equal to \$100,000 per ADS. The proceeds to the Company, before expenses and after deducting compensation of \$5,625,000 (\$750 per ADS), will be \$744,375,000, or \$99,250 per ADS. After the initial offering of the ADSs, the price and other selling terms may from time to time be varied by the initial purchasers.

The Preference Shares and ADSs are new issues of securities with no established trading market. No assurance can be given as to the liquidity of the trading market for the Preference Shares or the ADSs.

The Company has agreed to indemnify the initial purchasers against certain liabilities, including liabilities under U.S. securities laws.

The Company has applied to the UK Listing Authority for the ADSs to be admitted to the Official List and to the London Stock Exchange for the ADSs to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market.

The Company has agreed that it will not resell any ADSs that it may purchase from time to time from ADS holders.

In connection with the issue of the ADSs, J.P. Morgan Securities Inc. (the "Stabilizing Manager") (or persons acting on behalf of any Stabilizing Manager ) may over-allot ADSs (provided that the amount paid up on the Preference Shares represented by ADSs allotted does not exceed 105% of the amount paid up on the Preference Shares represented by such ADSs) or effect transactions with a view to supporting the market price of such ADSs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the ADSs and 60 days after the date of the allotment of the ADSs.

Certain of the initial purchasers and their affiliates have performed investment banking and advisory services for the Company from time to time for which they have received customary fees and expenses. The initial purchasers may from time to time engage in transactions with and perform services for the Company in the ordinary course of business.

## Notice to Investors

Each purchaser of ADSs in the United States will, by its purchase of such ADSs, be deemed to have represented, acknowledged and agreed as follows:

1. The Rule 144A ADRs and the Rule 144A ADSs evidenced thereby and Preference Shares represented thereby have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and are subject to significant restrictions on transfer.
2. It is not the Company's "affiliate" (as defined in Rule 144 under the Securities Act), it is not acting on the Company's behalf and it is (a) a QIB (within the meaning of Rule 144A), (b) acquiring such Rule 144A ADSs for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such ADSs has been advised that the sale of such ADSs to it is being made in reliance on Rule 144A.
3. It agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, sell, pledge or otherwise transfer such ADSs or Preference Shares represented thereby except (a) to a person whom it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S or (c) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of such ADSs of the resale restrictions referred to in (a), (b) and (c) above. Notwithstanding anything to the contrary in the foregoing, the Preference Shares represented by the ADSs may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank (including the Depositary), so long as such Preference Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of the ADSs or the Preference Shares represented thereby.
4. It understands that the ADSs sold in the United States will bear a legend substantially to the following effect unless the Depositary and the Company determine otherwise in compliance with applicable law:

THE RULE 144A AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY AND THE PREFERENCE SHARES REPRESENTED THEREBY (THE "PREFERENCE SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (2) IN AN OFFSHORE TRANSACTION PURSUANT TO AND IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND OTHER JURISDICTIONS. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THESE SECURITIES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE PREFERENCE SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF PREFERENCE SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK OTHER THAN A RULE 144A RESTRICTED DEPOSITARY

RECEIPT FACILITY, UNLESS AND UNTIL SUCH TIME AS SUCH PREFERENCE SHARES ARE NO LONGER RESTRICTED SECURITIES WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT.

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Depository or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, in as much as the registered owner hereof, Cede & Co., has an interest herein.

5. It understands that the Rule 144A ADSs will initially be represented by a Master Rule 144A ADR and, before any beneficial interests in Rule 144A ADSs evidenced by a Master Rule 144A ADR may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S ADSs represented by a Master Regulation S ADR, the transferor and transferee will be required to provide certain written certifications (in the form provided in the Deposit Agreement (as defined herein)).
6. It acknowledges that the Company, the Depository, the initial purchasers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring the Rule 144A ADSs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Any sale or other transfer, or attempted sale or other transfer, made other than in compliance with the above-stated restrictions, shall not be recognized by the Company or the Depository in respect of the Rule 144A ADSs and the Preference Shares represented thereby.

Each purchaser of ADSs outside of the United States pursuant to Regulation S will be deemed to have represented, acknowledged and agreed as follows:

1. It is aware that the sale of such ADSs to it is being made pursuant to and in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act and it is, or at the time such ADSs are purchased, will be, the beneficial owner of such ADSs and (a) it is not a US person (as defined in Regulation S) and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Company or a person acting on behalf of such affiliate.
2. It understands that the Regulation S ADSs and Preference Shares represented thereby have not been and will not be registered under the Securities Act and, during the Distribution Compliance Period, may not be offered, sold, pledged or otherwise transferred except (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (b) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, or (c) pursuant to an effective registration statement under the Securities Act in each case in accordance with any applicable securities law of any state or other jurisdiction of the United States; provided that in connection with any transfer under clause (b) above, the transferor shall, prior to the settlement of such sale, withdraw such securities in accordance with the terms and conditions of the Deposit Agreement and instruct that such securities be delivered to the custodian under the Deposit Agreement for deposit thereunder in the Rule 144A depository facility and issuance, in accordance with the terms and conditions thereof, of Rule 144A ADSs to or for the account of such QIB.
3. The Regulation S ADSs will bear a legend substantially to the following effect, unless the Depository and the Company determine otherwise in compliance with applicable law:

NEITHER THE REGULATION S AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY, NOR THE PREFERENCE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THOSE SECURITIES MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED PRIOR TO THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD (DEFINED AS 40

DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERING OF REGULATION S AMERICAN DEPOSITARY SHARES AND PREFERENCE SHARES AND (II) THE COMPLETION OF DISTRIBUTION OF SUCH SECURITIES) EXCEPT (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A US PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE BENEFICIAL OWNER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE PREFERENCE SHARES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH PREFERENCE SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR ISSUANCE WITH TERMS AND CONDITIONS THEREOF, OF RULE 144A AMERICAN DEPOSITARY SHARES TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER. UPON THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, THE REGULATION S AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY AND THE DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND IF, AT THE TIME OF SUCH EXPIRATION, THE OFFER AND SALE OF THE AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY AND THE DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES.

Unless this certificate is presented by an authorized representative of The Depository Trust Companto the Depository or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

4. It understands that the Regulation S ADSs will initially be evidenced by a Master Regulation S ADR and before any beneficial interest in the Regulation S ADSs represented by the relevant Master Regulation S ADR may be transferred to a person who takes delivery in the form of a beneficial interest in a Master Rule 144A ADR, the transferor will be required to provide certain written certifications (in the forms provided in the Deposit Agreement).
5. It acknowledges that the Company, the Depository, the initial purchasers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Any sale or other transfer, or attempted sale or other transfer, made other than in compliance with the above-stated restrictions, shall not be recognized by the Company or the Depository in respect of the ADSs and the Preference Shares represented thereby.

#### **Other Provisions Regarding Transfers of the ADSs**

Rule 144A ADSs may be transferred to a person whose interest in such ADSs is subsequently evidenced by a Master Regulation S ADR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that, among other things, such transfer is being made in accordance with Regulation S and subject to the terms of the Deposit Agreement. Prior to the expiration of the Distribution Compliance Period, Regulation S ADSs may be transferred to a person whose interest in such ADSs is subsequently represented by a Master Rule 144A ADR only upon receipt by the Depository of written certifications from the transferor and the transferee (in the forms provided in the Deposit

Agreement) to the effect that, among other things, such transfer is being made in accordance with Rule 144A and subject to the terms of the Deposit Agreement. Any ADSs evidenced by one of the Master ADRs that is transferred to a person whose interest in such ADSs is subsequently represented by another Master ADR will, upon transfer, cease to be an interest in such first Master ADR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in ADSs evidenced by such other Master ADR for so long as it remains such an interest.

Following the expiration of the Distribution Compliance Period, Regulation S ADSs may not be transferred to a person whose interest in such ADSs is subsequently represented by a Master Rule 144A ADR.

Because of the foregoing restrictions, investors are advised to consult legal counsel prior to making any resale, pledge or transfer of ADSs.

## **Additional Selling Restrictions**

### **United Kingdom**

Each initial purchaser has further represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Preference Shares, ADSs or ADRs in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preference Shares, ADSs or ADRs in, from or otherwise involving the United Kingdom.

### **General**

No action has been or will be taken in any jurisdiction by the Company or any initial purchaser that would, or is intended to, permit a public offering of the Preference Shares, ADSs or ADRs, or possession or distribution of this Offering Circular, or any amendment or supplement hereto, or any other offering material relating to the Preference Shares, ADSs or ADRs, in any country or jurisdiction where action for that purpose is required. Accordingly, the Preference Shares, ADSs or ADRs may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Persons into whose hands this Offering Circular comes are required by the Company and the initial purchasers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Preference Shares, ADSs or ADRs or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Preference Shares, ADSs or ADRs, in all cases at their own expense.

## **Legal Matters**

The validity of the ADSs has been passed upon for the Company by its United States counsel, Sullivan & Cromwell LLP, and the validity of the Preference Shares has been passed upon by the Company's solicitors, Slaughter and May (upon whose opinion Sullivan & Cromwell LLP has relied with respect to all matters of English law). Certain legal matters relating to the ADRs, the ADSs and the Preference Shares have been passed upon for the initial purchasers by Sidley Austin (UK) LLP.

### **Independent Auditor**

The financial statements of the Group as of and for the years ended December 31, 2006 and December 31, 2005 included in this Offering Circular have been audited by KPMG Audit plc, independent auditor, as stated in their reports thereon appearing herein.

## **Description of Certain Differences Between IFRS and US GAAP**

### **Principles**

The statutory consolidated financial statements of the Group as of and for the year ended December 31, 2006 and December 31, 2005 are prepared in accordance with IFRS. The Group's statutory consolidated financial statements also comply with the relevant provisions of the Companies Act 1985 and Article 4 of the IAS Regulation.

Such principles may vary from US GAAP. Set out below are descriptions of certain accounting differences between IFRS and US GAAP that could have a significant effect on profit attributable to parent company shareholders for the year ended December 31, 2006 and total parent company shareholders' equity as of December 31, 2006 as shown under IFRS in the consolidated financial statements as of and for the year ended December 31, 2006. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those US GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to December 31, 2006. The Company has not quantified the effect of differences between IFRS and US GAAP, nor prepared consolidated financial statements under US GAAP, nor undertaken a reconciliation of IFRS and US GAAP financial statements. Had the Company undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Company does not provide any assurance that the differences identified below represent all the principal differences between IFRS and US GAAP relating to the Company. Furthermore, no attempt has been made to identify future differences between IFRS and US GAAP. Finally, no attempt has been made to identify all differences between IFRS and US GAAP that may affect the financial statements as a result of transactions or events that may occur in the future.

In making an investment decision, investors must rely upon their own examinations of us, the terms of the offering and the Group's financial statements. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and US GAAP and how those differences might have affected the financial information contained in this Offering Circular. The summary does not purport to be complete and is subject and qualified in its entirety by reference to the pronouncements of the IASB and the UK accounting profession, together with the pronouncements of the US accounting profession.

### **Pensions**

#### ***IFRS***

- IAS 19 'Employee Benefits' ("IAS 19") requires pension liabilities to be assessed on the basis of current actuarial valuations performed on each plan, and pension assets to be measured at fair value. The net pension surplus or deficit, representing the difference between plan assets and liabilities, is recognized on the balance sheet.
- Under the transitional provisions of IFRS 1 'First-time adoption of International Financial Reporting Standards' ("IFRS 1") and in accordance with IAS 19, the Group has elected to record all actuarial gains and losses on the pension surplus or deficit in the year in which they occur within the 'Consolidated statement of recognized income and expense'.

#### ***US GAAP***

- SFAS 87 'Employers' Accounting for Pensions' ("SFAS 87") prescribes a similar method of actuarial valuation for pension liabilities and requires the measurement of plan assets at fair value for the purpose of calculating the funded status of plans. However, for the purpose of calculating net periodic pension cost, the expected return on plan assets may be calculated using fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.
- From December 31, 2006, SFAS 158 'Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)' requires the difference between the plan assets at fair value and the plan benefit obligations (the funded status) to be recognized on the balance sheet as an asset or liability. Changes in the funded status of plans that are not included in net periodic pension cost are recognized through other comprehensive income. The net gain or loss included in accumulated other comprehensive

income is amortized as part of net periodic pension cost over the average remaining service period of active employees if it exceeds 10% of the greater of the projected benefit obligation or the value of plan assets (or may be amortized in accordance with another systematic method).

## **Goodwill**

### ***IFRS***

- IFRS 3 'Business Combinations' ("IFRS 3") requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalized but not amortized and is subject to an annual review for impairment. Under the transitional provisions of IFRS 1, the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before January 1, 2004, the date of transition to IFRS. Accordingly, goodwill previously written off to reserves, as permitted under UK GAAP until the implementation of FRS 10 'Goodwill and intangible assets' in 1998, has not been reinstated nor will it be written back on disposal. Amortization of goodwill that has been charged up to December 31, 2003 has not been reversed and the deemed carrying value of the goodwill on transition to IFRS is equal to the net book value as at December 31, 2003.
- For acquisitions occurring on or after January 1, 2004, IFRS 3 requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognized and if considered to have a finite life, amortized through the income statement over an appropriate period. As the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before January 1, 2004, no intangible assets, other than goodwill, were recognized on acquisitions prior to that date.

### ***US GAAP***

- Goodwill arising on all acquisitions by group and associated undertakings is capitalized and, from January 1, 2002, is not amortized and is subject to an annual review for impairment.
- SFAS No. 141 'Business Combinations' ("SFAS 141") requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognized. Such identifiable intangible assets include the asset representing the value of customer relationships, which is capitalized separately and amortized through the income statement over the estimated average life of the customer relationships. Prior to SFAS 141, banking entities applied SFAS No. 72 'Accounting for Certain Transactions of Bank and Thrift Institutions' which required the recognition of some, but not all, of the intangible assets required by SFAS 141.

## **Derivatives and hedge accounting**

### ***IFRS***

- IAS 39 requires that all derivatives be recognized on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings or recognized directly in equity until the hedged item is recognized in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognized in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.
- IAS 39 permits fair value hedging to be used for a portfolio hedge of interest rate risk. In particular it allows the hedged item to be designated as an amount of a currency rather than individual assets or liabilities and allows prepayment risk to be incorporated.

### ***US GAAP***

- SFAS No. 133 'Accounting for Derivative Instruments and for Hedging Activities' ("SFAS 133") has similar requirements for the recognition and measurement of derivatives and the accounting for and classification of hedging transactions.

- However, positions which achieve hedge accounting under IFRS would not necessarily meet hedge accounting conditions under US GAAP as there are differences in the detailed requirements as to designation, documentation and effectiveness testing. In particular, US GAAP does not permit fair value hedging of interest rate risk to be designated in the same manner as under IAS 39.

## **Designation of financial assets and liabilities at fair value through profit or loss**

### ***IFRS***

- Under IAS 39, a financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:
  - the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
  - a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or
  - assets or liabilities include embedded derivatives and such derivatives are not recognized separately.
- Financial assets and financial liabilities so designated are recognized initially at fair value, with transaction costs taken directly to the income statement, and are subsequently re-measured at fair value. The designation, once made, is irrevocable in respect of the financial instruments to which it relates. These financial assets and financial liabilities are recognized using trade date accounting.
- Gains and losses from changes in the fair value of such assets and liabilities are recognized in the income statement as they arise.

### ***US GAAP***

- There are no provisions in US GAAP to make an election similar to that in IAS 39.
- US GAAP does not generally permit the change in fair value of assets other than those that meet the definition of trading securities in SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities' ("SFAS 115") or are accounted for as derivatives under SFAS 133 to be recognized in the income statement.
- Liabilities, other than those instruments that are accounted for as derivatives under SFAS 133 and short positions in securities, are generally reported at amortized cost.

## **Investment securities**

### ***IFRS***

- IAS 39 requires all financial assets to be classified as either (i) held at fair value through profit or loss, with unrealized gains or losses reflected in profit or loss; or (ii) available-for-sale at fair value, with unrealized gains and losses reflected in shareholders' equity; or (iii) held-to-maturity at amortized cost, where there is the intent and the ability to hold them to maturity; or (iv) as loans and receivables at amortized cost.
- At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. If such evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognized. For assets held at amortized cost, impairment is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate.
- Market recoveries leading to a reversal of an impairment provision for debt securities are recognized in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

### ***US GAAP***

- SFAS 115 requires that only investments in debt securities and those equity shares with readily determinable fair values be classified as (i) held for trading at fair value, with unrealized gains or losses reflected in profit or loss; or (ii) available-for-sale at fair value, with unrealized gains and losses reflected in shareholders' equity; or (iii) held-to-maturity at amortized cost, where there is the intent and the ability to hold them to maturity. No financial assets other than

securities within the scope of SFAS 115 can be so classified. Except as noted under “Designation of financial assets and liabilities at fair value through profit or loss” above, other financial assets are generally carried at amortized cost less provision for impairment.

- All securities classified as held-to-maturity or available-for-sale are subject to assessment for other-than-temporary impairment in accordance with SFAS 115, where the recognition of an other-than-temporary impairment may be required if there is a decline in a security’s value below cost and it is probable that an investor will be unable to collect all amounts due under the contractual terms and/or an investor is unable to assert that it has the intent and the ability to hold the investment until it matures or the value recovers. For certain asset-backed securities, impairment is assessed in accordance with EITF 99-20 ‘Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets’, which requires impairment testing to be performed using a discounted cash flow model.
- If an other-than-temporary impairment loss is recognized, the cost basis of the security is written down to fair value as a new cost basis and the write-down is charged to profit or loss. As a result, market recoveries on available-for-sale and held-to-maturity debt securities are not recognized in the income statement.

#### **Foreign exchange on available-for-sale debt securities**

##### ***IFRS***

- Changes in the fair value of available for sale debt securities resulting from movements in foreign currency exchange rates are included in the income statement as exchange differences.

##### ***US GAAP***

- Under EITF 96-15 ‘Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities’, as amended by SFAS 133, changes in the value of available for sale debt securities due to changes in foreign currency exchange rates are included in shareholders’ equity (to the extent they do not represent an other-than-temporary impairment) and are transferred to the income statement on sale or redemption of the instrument.

#### **Leasing**

##### ***IFRS***

- Profits or losses arising on sale and leaseback transactions that result in an operating lease are taken to profit as they arise.

##### ***US GAAP***

- Under SFAS No. 28 ‘Accounting for Sales with Leasebacks’ profits or losses arising on a sale and leaseback that results in an operating lease are generally deferred and amortized in proportion to the gross rental charged to expense over the lease term.

#### **Property**

##### ***IFRS***

- Under the transition rules of IFRS 1, the Group elected to freeze the value of all its properties held for its own use at their 1 January 2004 valuations, their ‘deemed cost’ under IFRS. They will not be revalued in the future. Depreciation is charged on all properties based on historical or deemed cost as appropriate.

##### ***US GAAP***

- US GAAP does not permit revaluations of property although it requires recognition of asset impairment. Depreciation is charged on all properties based on their historical cost.

#### **Liabilities and equity**

##### ***IFRS***

- A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled.

- Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognized in the income statement as interest expense on an amortized cost basis using the effective interest method.

#### ***US GAAP***

- Under SFAS No. 150 ‘Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity’ (“SFAS 150”) certain financial instruments are classified as a liabilities if they are:
  - financial instruments issued in the form of shares, such as preference shares, that are mandatorily redeemable;
  - financial instruments (other than outstanding shares) that, at inception, include an obligation to repurchase the issuer’s equity shares, or are indexed to such an obligation, and that may require the issuer to settle the obligation by transferring assets; and
  - financial instruments that include an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation that the issuer may settle by issuing a variable number of its equity shares if, at inception, the monetary value is for a fixed amount, or is indexed to something other than the fair value of the issuer’s equity shares or is inversely related to changes in the fair value of the issuer’s equity shares.
- Issued preference shares that do not satisfy the criteria set out in SFAS 150 and which are not redeemable or are redeemable only at the option of the issuer are classified as equity irrespective of whether the coupon on the preference shares is mandatory or not.

#### **Interest recognition and loan origination fees**

##### ***IFRS***

- The calculation and recognition of effective interest rates under IAS 39 requires an estimate of ‘all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts’ that are an integral part of the effective interest rate be included. These fees and costs, which may include estimates of fee income which will arise in future periods, are deferred and amortized over the expected life of the loan as an adjustment to yield. IAS 39 does not consider certain internal costs to be directly incremental to the origination of financial instruments and accordingly these costs are expensed as incurred.

#### ***US GAAP***

- SFAS No. 91 ‘Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17’ (“SFAS 91”) requires that certain loan fee income and directly attributable but not necessarily incremental loan origination costs, including an apportionment of overheads, are amortized to the income statement account over the life of the loan as an adjustment to interest income.
- SFAS 91 does not permit the recognition of future income to the extent that the net investment in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. As a result, such future income is generally recognized in income when received.

#### **Share compensation schemes**

##### ***IFRS***

- IFRS 2 ‘Share based payment’ requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the

income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

- Cash-settled awards must be revalued at each balance sheet date with any changes in fair value charged or credited to staff costs in the income statement.

#### **US GAAP**

- SFAS 123 (revised 2004) 'Share-Based Payment' ("SFAS 123(R)") requires share based awards made or modified after January 1, 2006 to be accounted for using the fair value method. Under this method, the cost of share-based payments is based on the estimated fair values of awards and is generally recognised in the income statements over the requisite service period (usually the vesting period of the instruments). For equity-classified awards, fair value is measured at the grant date; for liability-classified awards, fair value is re-measured at each reporting date until the date of settlement. The requirements of SFAS 123(R) and IFRS 2 differ from each other in a number of respects, including, *inter alia*: the criteria for differentiating between equity-classified and liability-classified awards; the criteria for determining whether employee share purchase plans are compensatory; accounting for modification of awards; and accounting for the income tax effect of equity awards.
- The transition provisions of SFAS 123(R) do not generally permit its application to awards made prior to its adoption (unless the awards are subsequently modified, cancelled or repurchased). Such awards are accounted for under the provisions of:
  - (i) SFAS 123 'Accounting for Stock Based Compensation', which uses a fair value method similar to SFAS 123(R); or
  - (ii) APB Opinion 25 'Accounting for Stock Issued to Employees', whereby a cost is recognized in the income statement over the service period of an award equal to the excess, if any, of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the underlying shares. The measurement date is the date on which the number of shares and the purchase price are first known. For awards with variable terms the cost is determined and re-measured at each reporting date until the measurement date.

However, a cumulative effect adjustment was required to be recognized in net income at the date of adoption in respect of, where applicable: awards reclassified from equity to liabilities; the measurement of liability-classified awards at fair value; and recognizing the effect of estimating awards for which requisite service is not expected to be rendered.

#### **Consolidation of special purpose vehicles**

##### **IFRS**

- Under the IASB's Standards Interpretations Committee ("SIC") Interpretation 12 ("SIC-12"), an SPE should be consolidated when the substance of the relationship between an enterprise and the SPE indicates that the SPE is controlled by that entity.

##### **US GAAP**

- ARB 51 'Consolidated Financial Statements' requires the consolidation of subsidiaries and other entities in which the reporting entity has a controlling financial interest. The usual condition for a controlling financial interest is ownership of a majority voting interest. However, a majority-owned subsidiary is not consolidated if control does not rest with the majority owner (e.g. the subsidiary operates under foreign exchange restrictions, controls or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary or where minority shareholders have substantive participating rights). A general partner of a limited liability partnership may be required to consolidate the partnership depending on the rights of the partners.
- Additionally, the voting-interest model is not applied to interests in variable interest entities ("VIEs") within the scope of FIN 46R 'Consolidation of Variable Interest Entities'. An entity is a VIE if (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support or (b) the equity investors as a group lack the characteristics of a controlling financial interest (e.g. they do not have the ability through voting rights to make decisions about the entity's activities that have a significant effect

on its success). A VIE is required to be consolidated by its primary beneficiary (if any). The primary beneficiary is the party whose variable interests in the VIE will absorb a majority of the VIE's expected residual returns or losses or both. Variable interests may include shares, debt instruments, equity and beneficial interests and management contracts.

## General Information

1. Applications have been made for the ADSs to be admitted to the Official List maintained by the UK Listing Authority and to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The admission to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market will be expressed as a percentage of the amount paid up on the Preference Shares (excluding accrued dividends). It is expected that the ADSs will be admitted to the Official List and to trading by the London Stock Exchange as and when issued, subject only to the issue of the Master ADRs evidencing the Preference Shares. The ADSs may also be listed and/or admitted to trading on or by other stock exchanges and/or markets. The total expenses relating to the admission to trading of the ADSs are estimated to be \$27,000.
2. Clause 4 of the Memorandum of Association of the Company provides that the principal objects of the Company are to carry on in all parts of the world the business of banking in all its aspects and to transact and do all matters and things incidental thereto, or which may at any time hereafter, at any place where the Company carries on business, be usual in connection with the business of banking or dealing in money or securities for money.
3. The Company has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Preference Shares and the ADSs. The issue of the Preference Shares and ADSs was authorized by resolutions of the Board passed on May 11, 2007 and of a duly authorized committee of the Board passed on May 18, 2007.
4. Other than as discussed in the notes to the "Capitalization and Indebtedness" table on page 21 and the discussion of the incorporation of Standard Chartered Bank (China) Limited in the section entitled "Recent Developments" on page 25, there has been no significant change in the financial or trading position of the Group since December 31, 2006. There has been no material adverse change in the prospects of the Group since December 31, 2006.
5. No Director has any potential conflict of interest between his duties to the Company and his private interests or other duties.
6. Neither the Company nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the Company and/or the financial position or profitability of the Group.
7. The financial information contained in this Offering Circular which relates to the Company does not constitute full statutory accounts as referred to in section 240 of the Companies Act 1985.
8. The financial statements of the Group for each of the three years ended December 31, 2006 have been audited by KPMG Audit plc ("KPMG"), chartered accountants with the Institute of Chartered Accountants in England and Wales and regulated by the Audit Inspection Unit for the Public Oversight Board and Financial Reporting Council in the United Kingdom, whose address is Eighth Floor, 1 Canada Square, Canary Wharf, London E14 5AG, as stated in their reports thereon, and have been filed with the Registrar of Companies. The reports of KPMG were unqualified and each contained the following statement: "To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed".
9. The ADSs will be accepted for clearance through DTC on or about May 25, 2007. The CUSIP number for the Rule 144A ADSs representing the Preference Shares is 853254 AB6. The ISIN number for the Rule 144A ADSs representing the Preference Shares is US853254AB69. The CUSIP number for the Regulation S ADSs representing the Preference Shares is 853254 AC4. The ISIN number for the Regulation S ADSs representing the Preference Shares is US853254AC43. The address of DTC is The Depository Trust Company, 55 Water Street, New York, NY 10041-0099, USA.
10. For so long as any of the ADSs are outstanding, copies of the following documents may be obtained during normal business hours at the specified office of the Depositary and at the registered office of the Company:
  - (a) a copy of the Memorandum and Articles of Association of the Company;
  - (b) the Purchase Agreement dated May 22, 2007;

- (c) the Deposit Agreement dated December 8, 2006 and the Amendment No. 1 to Deposit Agreement dated May 18, 2007;
- (d) a copy of this Offering Circular;
- (e) a copy of the resolution of a committee of the Board of Directors passed on May 18, 2007 approving the issue and allotment of the Preference Shares; and
- (f) the audited consolidated financial statements of Standard Chartered and its Group as of and for the years ended December 31, 2005 and 2006.

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## **Annex A – 2006 Financial Review**

## Financial Review

### Group Summary

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

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

### Operating Income and Profit

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

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

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

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

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

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

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

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

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

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

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

## Group Structure

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

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

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

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

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

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

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

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

\* Reported on a segmental basis.

## Financial Review continued

### Consumer Banking

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

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

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

\* Restated. See note 2 on page 87.

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

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

\* Restated. See note 2 on page 87.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Consumer Banking product performance

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

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

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

## Wholesale Banking

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

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

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

\* Restated. See note 2 on page 87.

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

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

\* Restated. See note 2 on page 87.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Product Performance

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

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

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

### MESA segment – Total

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

### Other Asia Pacific segment – Total

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

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

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

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

## Acquisitions Operating Income and Profit

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

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

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

# Risk Review

## Risk Management Review

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

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

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

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

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

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

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

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

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

## Risk Governance

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

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

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

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

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

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

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

### Risk Governance continued

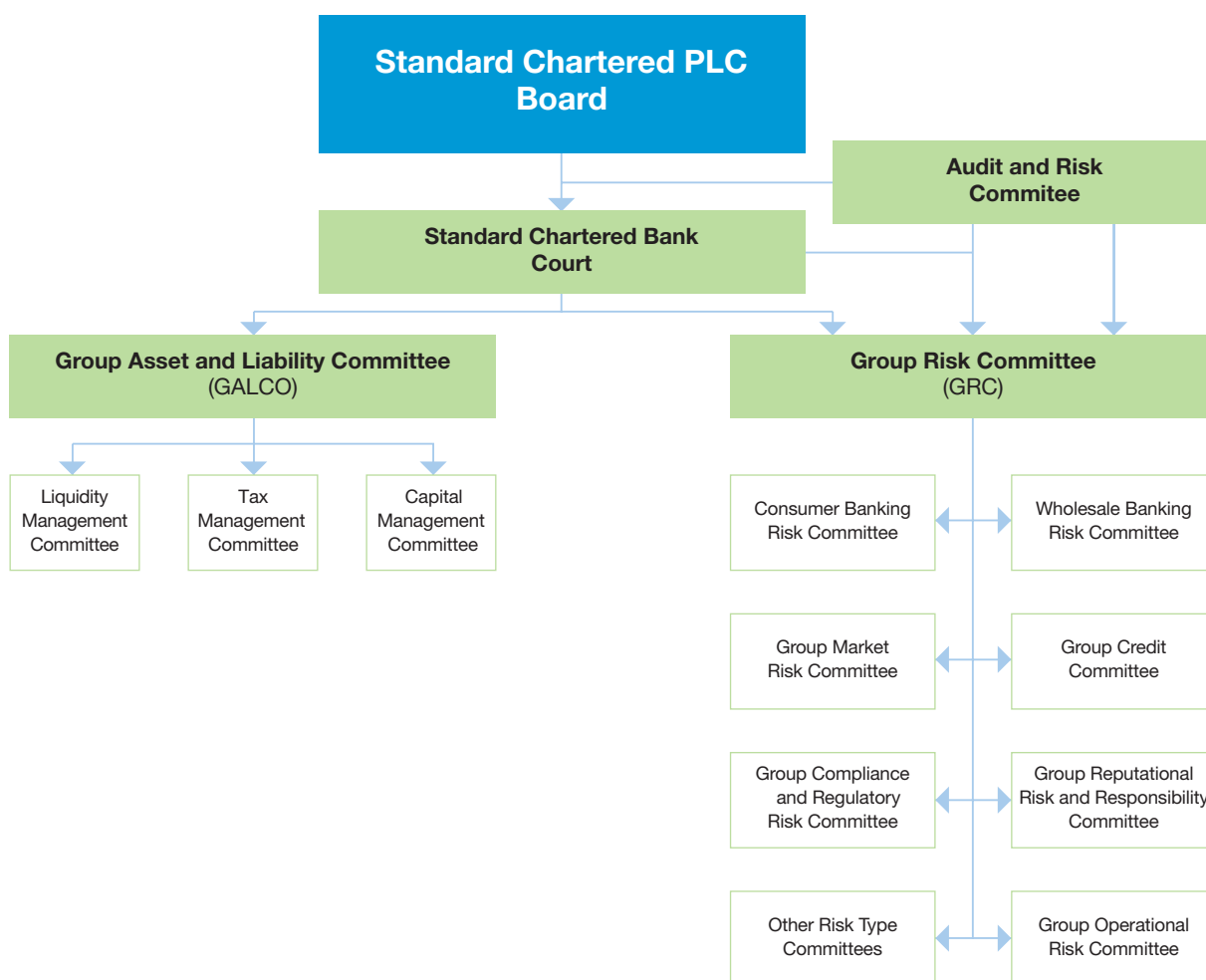
The committee process ensures that standards and policies are cascaded down through the organisation from the Board through the GRC and the GALCO to the functional, regional and country level committees. Key information is communicated through the country, regional and functional committees to Group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

The diagram below illustrates the high level committee structure.

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

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

### Group Risk Committee Structure



## Risk Review continued

### Risk Governance continued

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

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

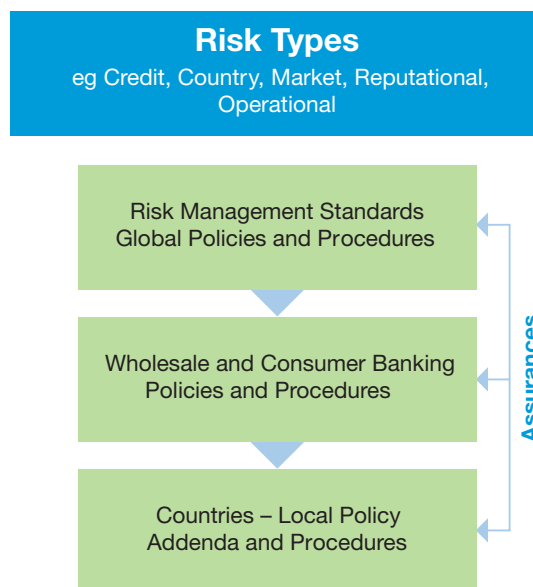
The Group's Risk Management Framework ("RMF") identifies 18 risk types, which are managed by designated Risk Type Owners ("RTOs"), who are all approved persons under the FSA regulatory framework, and who have responsibility for setting minimum standards and governance and implementing governance and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

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

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

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

### Risk Management Framework



## Stress Testing

### Objectives and purpose of stress testing

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

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

### Stress testing framework

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

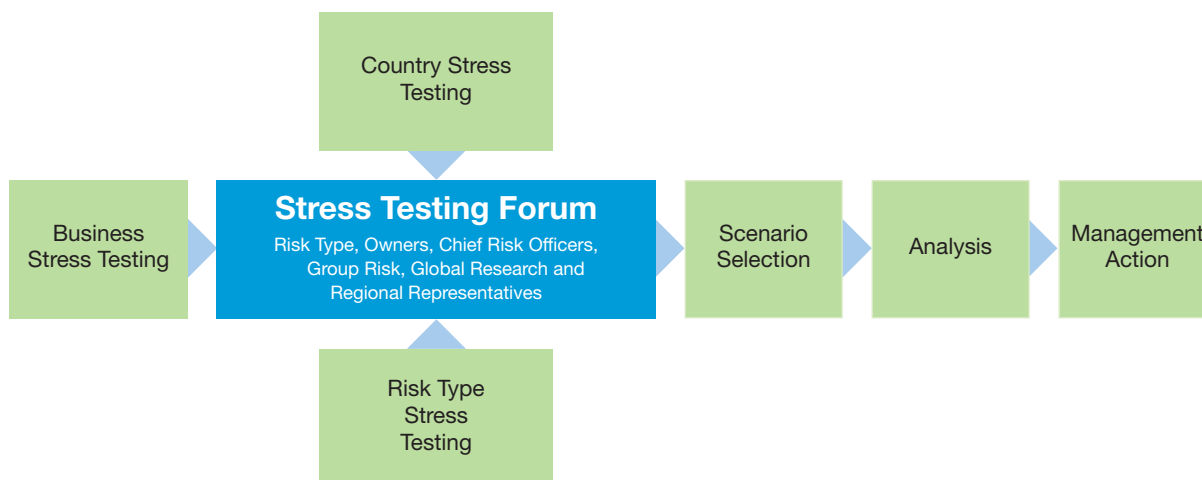
- identify key risks to the Group's strategy, financial position, and reputation;

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

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

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

## Stress Testing Framework



### Risk Appetite

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

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

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

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

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

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

### Credit Risk

#### Credit Risk Management

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

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

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

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

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

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

#### Wholesale Banking

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

#### Consumer Banking

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

## Loan Portfolio

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

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

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

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

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

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

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

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

## Risk Review continued

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

### Maturity Analysis

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

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

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

## Problem Credit Management and Provisioning

### Consumer Banking

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

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

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

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

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

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

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

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

## Risk Review continued

### Wholesale Banking

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

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

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

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

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

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

A portfolio impairment provision 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 portfolio impairment provision 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 87 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 Wholesale Banking net non-performing loan portfolio as at 31 December 2006 was 56 per cent lower than as at 31 December 2005. This was driven by a decrease in gross non-performing loans in most of the Group's key regions, except those affected by recent acquisitions.

Wholesale Banking continued

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

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

## Risk Review continued

### Movement in Group Individual Impairment Provision

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

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

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

## Country Risk

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

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

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

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

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

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

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

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

## Risk Review continued

### Market Risk

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

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

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

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

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

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

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

### Value at Risk

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

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

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

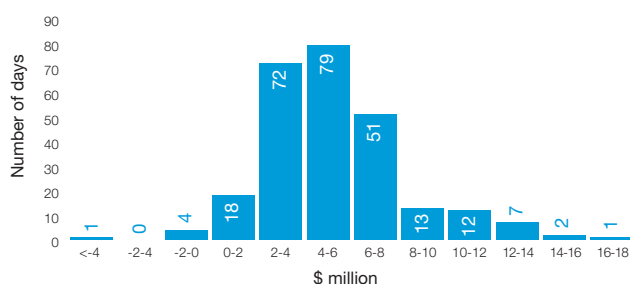
The average total VaR for trading and non-trading books during 2006 was \$10.6 million (2005: \$12.4 million) with a maximum exposure of \$14.0 million (2005: \$20.6 million).

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

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

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

### Revenue Distribution



### Foreign Exchange Exposure

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

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

### Interest Rate Exposure

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

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

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

### Derivatives

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

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

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

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

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

### Hedging

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

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

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

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

### Liquidity Risk

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

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

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

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

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

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

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

### Operational Risk

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

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

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

## Risk Review continued

### Operational Risk continued

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

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

### Compliance and Regulatory Risk

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

### Legal Risk

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

### Reputational Risk

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

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

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

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

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

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

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

### Monitoring

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

## **Annex B – 2005 Financial Review**

The Group prepared its financial statements in accordance with IFRS for the first time in connection with the preparation of the 2005 Annual Report and consequently applied IFRS 1. The 2005 Annual Report includes comparative amounts as of and for the year ended December 31, 2004 that have been restated in accordance with IFRS.

## Financial Review

### Group Summary

The Group has continued its strong performance trajectory with another good set of results for the year ended 31 December 2005. Operating profit before tax of \$2,681 million was up 19 per cent over the same period in 2004. Normalised earnings per share has increased by 23 per cent to 153.7 cents. (Refer to note 12 on page 82 for the details of basic and diluted earnings per share).

On 15 April 2005 the Group acquired 100 per cent of Korea First Bank (KFB). On 10 September 2005 KFB was renamed

SC First Bank (SCFB) and on 28 November 2005 the assets and businesses of the Standard Chartered branch in Korea were transferred to SCFB. The impact of the post acquisition results of SCFB in the 2005 results, together with significant one-off items affecting the 2004 results, make the comparability of the full year results to December 2005 with the equivalent period in 2004 complex. The table below therefore sets out underlying results for the two years excluding these two components.

|                                         | 2005        |                   |                    |                       | 2004              |                    |
|-----------------------------------------|-------------|-------------------|--------------------|-----------------------|-------------------|--------------------|
|                                         | SCFB<br>\$m | Underlying<br>\$m | As reported<br>\$m | *One off items<br>\$m | Underlying<br>\$m | As reported<br>\$m |
| Net interest income                     | 781         | 3,554             | 4,335              | –                     | 3,182             | 3,182              |
| Fees and commissions income, net        | 29          | 1,466             | 1,495              | –                     | 1,332             | 1,332              |
| Net trading income                      | 23          | 746               | 769                | –                     | 651               | 651                |
| Other operating income                  | 26          | 236               | 262                | 108                   | 109               | 217                |
|                                         | 78          | 2,448             | 2,526              | 108                   | 2,092             | 2,200              |
| Operating income                        | 859         | 6,002             | 6,861              | 108                   | 5,274             | 5,382              |
| Operating expenses                      | (579)       | (3,232)           | (3,811)            | (23)                  | (2,826)           | (2,849)            |
| Operating profit before provisions      | 280         | 2,770             | 3,050              | 85                    | 2,448             | 2,533              |
| Impairment losses on loans and advances | (53)        | (266)             | (319)              | –                     | (214)             | (214)              |
| Other impairment                        | –           | (50)              | (50)               | (67)                  | (1)               | (68)               |
| Operating profit before taxation        | 227         | 2,454             | 2,681              | 18                    | 2,233             | 2,251              |

\* See note 12 on page 82.

### Operating Income and Profit

Operating income, including SCFB, increased by 27 per cent to \$6,861 million over 2004. Of this increase, SCFB accounted for \$859 million. Underlying income growth excluding SCFB and 2004 one-off items was 14 per cent to \$6,002 million. Both Consumer Banking and Wholesale Banking delivered double-digit income growth and business momentum remains strong across an increasingly broad range of customer segments and markets.

Net interest income grew by 36 per cent to \$4,335 million. Underlying growth was 12 per cent. Net interest margin was 2.5 per cent, down from 2.6 per cent in the prior year reflecting the impact of changes in geographic and product mix.

Fees and commissions increased by 12 per cent to \$1,495 million. Underlying growth was 10 per cent driven mainly by higher volumes in wealth management, cash management and global markets products across most markets.

Net trading income grew by 18 per cent to \$769 million due to higher volumes of foreign exchange dealing by both Wholesale and Consumer Banking customers. Underlying growth was 15 per cent.

Other operating income of \$262 million increased by 21 per cent. Excluding one-off items in 2004 from the sale of shares in KorAm and Bank of China (Hong Kong), growth was strong on the back of structured transactions and sales of available-for-sale securities within the asset and liability management (ALM) portfolio.

Operating expenses increased from \$2,849 million to \$3,811 million. Of this increase, \$579 million was due to the inclusion of SCFB.

Underlying expense growth was 14 per cent, in line with underlying income growth for the full year. The normalised cost income ratio was 54.5 per cent (2004: 54.0 per cent) on a headline basis including SCFB, but on an underlying normalised basis has improved to 53.0 per cent (2004: 54.0 per cent). The Group has continued to invest in both Consumer Banking and Wholesale Banking in order to sustain the double-digit client led income growth. Such investments were directed primarily at new market entry, new products, reinforced capabilities, expanded client coverage, increased distribution and improvements to technology and infrastructure to support new and rapidly growing markets.

Impairment losses on loans and advances rose by 49 per cent from \$214 million to \$319 million, an increase of \$105 million of which SCFB accounted for \$53 million.

The underlying increase in impairment losses was 24 per cent reflecting asset growth in Consumer Banking, a deterioration in the Taiwan consumer credit environment and movements in portfolio provisioning under IFRS. Wholesale Banking continued to benefit from a benign credit environment, the successful conclusion of the Loan Management Agreement in Thailand and strong recoveries. Other impairment includes provisions made in 2005 for exposures in Zimbabwe.

### Consumer Banking

Including the acquisition of SCFB, Consumer Banking grew operating profit by 21 per cent to \$1,278 million compared to 2004. Of the \$220 million increment in profit, SCFB accounted for \$137 million. Underlying growth was eight per cent.

Consumer Banking has maintained strong income momentum with income up 41 per cent to \$3,807 million. SCFB accounted for \$671 million or 61 per cent of Consumer Banking's total income growth of \$1,107 million. Underlying income was up 16 per cent to \$3,136 million. Underlying income growth was driven by volume and fee income growth across almost all product lines, strong growth in customer balances, particularly deposits and the contribution from business segments such as consumer finance and small and medium enterprises (SME) loans. Businesses acquired in 2004, including PrimeCredit and Bank Permata, contributed to income and profit growth.

Excluding SCFB, customer liabilities saw double-digit growth year on year while assets grew four per cent. Deposit growth was particularly strong in Hong Kong, Singapore and Other Asia Pacific Region (Other APR).

On an underlying basis excluding SCFB, expense growth was broadly in line with income growth at 15 per cent for the year. This expense growth included investment expenditure in new products, extended client coverage, enhanced infrastructure, increased compliance costs and investment in new businesses. Total expenses in Consumer Banking grew by \$701 million with SCFB accounting for \$486 million.

Overall, Consumer Banking's impairment losses on loans and advances rose to \$425 million from \$242 million in 2004. This reflects the impact of asset growth outside Korea, inclusion of SCFB, movements in portfolio provisions under IFRS and deterioration in the Taiwan consumer credit environment. The underlying impairment charge has risen 20 bps to one per cent of average customer assets largely as a result of changes in portfolio mix and the deteriorating credit environment in Taiwan, where the banking industry as a whole has been significantly affected by a strong increase in consumer default rates. Consumer Banking anticipated this deterioration and took action to mitigate exposure. Nonetheless, the Consumer Banking loan impairment charge in Taiwan increased to \$98 million in 2005 from \$26 million in 2004. Consumer Banking in Taiwan has customer assets of approximately \$1.3 billion as at 31 December 2005. We expect Taiwan to remain challenging through 2006.

Hong Kong delivered an increase in operating profit of 17 per cent to \$540 million. Income growth was four per cent. Operating expenses were lower than in 2004 as a result of the actions taken to reconfigure the cost base. This resulted in pre-impairment profit growth of seven per cent. Responding to the rising interest rate environment, the business has put greater focus onto wealth management and SME, by successfully launching several new products and achieving growth in customer liabilities. The acquisition of PrimeCredit in 2004 has been a great success with performance well ahead of plan. Asset portfolios continue to perform well with a 56 per cent reduction in the loan impairment charge compared to the prior period.

In Singapore, income was down two per cent in 2005 with strong growth in wealth management and SME largely offsetting the sharp decline in mortgage margins. Mortgage margins reduced by nearly half on a full year basis. The successful launch of a new on-line savings product, together with good growth in investment services resulted in strong wealth management income growth.

Operating profit before provisions was up 28 per cent in Malaysia on the back of a 19 per cent rise in income and moderate

expense growth focused on building infrastructure and expanding distribution. Good balance sheet growth, new products, a developing Islamic banking presence and better fee income coupled with productivity improvements all contributed to a strong performance for Consumer Banking. Loan impairment charges rose from \$14 million to \$37 million primarily due to attributing portfolio provision movements under IFRS.

In the eight and a half months since acquisition, the Consumer Banking division of SCFB earned \$137 million of operating profit on income of \$671 million. With the expansion of the product range since acquisition there has been good volume growth, particularly in wealth management with a significant growth in deposits. The cards and loans portfolios and mortgage portfolio have also enjoyed robust asset growth although moderate mortgage margin contraction has continued during the second half of the year. Expenses were higher in the second half, as anticipated, reflecting integration costs, re-branding and investment in product capabilities.

Other APR had income growth of 55 per cent driven by strong balance sheet growth in all product segments and continued investment in expanding sales forces, new branches and new products. Bank Permata in Indonesia accounted for \$69 million of income and \$9 million of profit before tax. China enjoyed very strong organic growth in all major products delivering a threefold increase in income. Thailand continues to perform very well with increasingly diversified income and balance sheet growth. Impairment provisions increased by \$100 million, of which \$72 million was in Taiwan.

India's very strong income growth in wealth management and SME was offset in part by lower growth in mortgages and a small decline in unsecured lending due to eroding margins resulting in an overall income growth of 10 per cent. The Consumer Business has continued to diversify its income streams with double-digit balance sheet growth in all business lines except credit cards. Continued investment spending underpinned a 17 per cent overall increase in expenses directed towards opening five new branches, the launch of six consumer finance business centres, new investment and insurance products and a continued strengthening of the risk and control infrastructure. Whilst there are near term challenges in profitability, Consumer Banking remains focused on building a substantial franchise in this fast growing and highly competitive market.

Operating profit in the Middle East and Other South Asia (MESA) increased by 23 per cent to \$163 million with income up by 28 per cent to \$378 million. This continued strong year on year momentum was led by wealth management, credit cards and SME. Investment in sustaining this growth trajectory resulted in a 26 per cent increase in expenses, with a focus on strengthening distribution, product and people capabilities. The global Consumer Banking business model is now embedded in these rapidly growing markets.

In the United Arab Emirates (UAE), Consumer Banking grew income 27 per cent to \$158 million driven by wealth management, SME and credit cards. As new products continue to be launched, volume growth on both sides of the balance sheet remains robust.

In Africa, operating profit more than doubled as a result of broad based income growth of 18 per cent and expense growth contained to just five per cent, benefiting from productivity gains and prior year investments. Asset growth of 26 per cent reflected an increasing market demand for borrowing.

The Americas, UK and Group Head Office saw a decrease in operating profit from \$19 million to \$9 million largely driven by lower income as a result of the reconfiguration of the Jersey business.

## Financial Review continued

### Consumer Banking continued

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

|                  | 2005                |                  |                 |              |                                 |              |                                             |               |                                                 |                                     |
|------------------|---------------------|------------------|-----------------|--------------|---------------------------------|--------------|---------------------------------------------|---------------|-------------------------------------------------|-------------------------------------|
|                  | Asia Pacific        |                  |                 |              |                                 | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m | Americas<br>UK & Group<br>Head<br>Office<br>\$m | Consumer<br>Banking<br>Total<br>\$m |
|                  | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m |              |                                             |               |                                                 |                                     |
| Income           | 989                 | 322              | 209             | 695          | 611                             | 285          | 378                                         | 257           | 61                                              | 3,807                               |
| Expenses         | (415)               | (126)            | (95)            | (505)        | (342)                           | (179)        | (182)                                       | (205)         | (52)                                            | (2,101)                             |
| Loan impairment  | (34)                | (30)             | (37)            | (56)         | (166)                           | (56)         | (33)                                        | (13)          | –                                               | (425)                               |
| Other impairment | –                   | –                | –               | –            | –                               | –            | –                                           | (3)           | –                                               | (3)                                 |
| Operating profit | 540                 | 166              | 77              | 134          | 103                             | 50           | 163                                         | 36            | 9                                               | 1,278                               |

|                  | 2004                |                  |                 |              |                                 |              |                                             |               |                                                 |                                     |
|------------------|---------------------|------------------|-----------------|--------------|---------------------------------|--------------|---------------------------------------------|---------------|-------------------------------------------------|-------------------------------------|
|                  | Asia Pacific        |                  |                 |              |                                 | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m | Americas<br>UK & Group<br>Head<br>Office<br>\$m | Consumer<br>Banking<br>Total<br>\$m |
|                  | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m |              |                                             |               |                                                 |                                     |
| Income           | 954                 | 330              | 175             | 7            | 393                             | 258          | 296                                         | 218           | 69                                              | 2,700                               |
| Expenses         | (416)               | (117)            | (86)            | (12)         | (225)                           | (153)        | (144)                                       | (196)         | (51)                                            | (1,400)                             |
| Specific         | (88)                | (40)             | (18)            | –            | (69)                            | (29)         | (21)                                        | (6)           | –                                               | (271)                               |
| General          | 11                  | 6                | 4               | –            | 3                               | 2            | 2                                           | –             | 1                                               | 29                                  |
| Loan impairment  | (77)                | (34)             | (14)            | –            | (66)                            | (27)         | (19)                                        | (6)           | 1                                               | (242)                               |
| Operating profit | 461                 | 179              | 75              | (5)          | 102                             | 78           | 133                                         | 16            | 19                                              | 1,058                               |

\* Middle East and Other S Asia includes UAE income of \$158 million (2004: \$124 million), expenses of \$67 million (2004: \$51 million), loan impairment of \$21 million (2004: \$9 million) and operating profit of \$70 million (2004: \$64 million).

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

| Income by product              | 2005         |             |                   | 2004  |
|--------------------------------|--------------|-------------|-------------------|-------|
|                                | Total<br>\$m | SCFB<br>\$m | Underlying<br>\$m | \$m   |
| Cards and Loans                | 1,526        | 248         | 1,278             | 1,117 |
| Wealth Management and Deposits | 1,442        | 212         | 1,230             | 891   |
| Mortgages and Auto Finance     | 764          | 207         | 557               | 638   |
| Other                          | 75           | 4           | 71                | 54    |
|                                | 3,807        | 671         | 3,136             | 2,700 |

Including SCFB, cards and loans have delivered a solid 37 per cent increase in income to \$1,526 million. Underlying income and assets have increased 14 per cent and 17 per cent respectively in a highly competitive market environment with lower net interest margins broadly offset by higher fee income. Cards and loans enjoyed strong growth in Malaysia, Other APR, MESA and Africa. In Hong Kong three per cent growth year on year was achieved, reversing the previous declining trend in balances. Growth accelerated in the second half as successful new campaigns were rolled out for the Manhattan brand, cashback and balance building, leveraging the new positive file credit bureau.

In wealth management, underlying double-digit deposit growth and improved margins have been the primary drivers of a 62 per cent growth in income to \$1,442 million. The primary contributors being Singapore, India, Other APR and MESA. Product innovation, expanded distribution and effective sales and marketing campaigns have boosted both core deposit volumes and fee based investment product sales.

Total mortgage and auto finance income is up 20 per cent at \$764 million. Underlying income is lower by 13 per cent reflecting significant mortgage margin compression in Hong Kong, Singapore and India. Proactive re-pricing strategies have helped to offset some of this margin compression together with very good volume growth in Other APR.

### Wholesale Banking

In 2005 Wholesale Banking continued to execute its highly successful client-led strategy, driving sustained income momentum in all key client segments and across multiple products and geographies. Including SCFB, operating profit was up 22 per cent to \$1,439 million. Underlying profit growth increased 15 per cent to \$1,349 million.

Total income growth was 19 per cent to \$3,054 million. Underlying income growth of 11 per cent to \$2,866 million was achieved through client revenue growth of 19 per cent, driven by balanced growth across local corporates and large local corporates, multinationals and financial institutions. Global markets products together with cash and custody were the principal contributors to the continued strong growth in Wholesale Banking client revenues. Own account ALM and trading revenues

were adversely affected by a rising interest rate environment and a flat yield curve.

Expenses in Wholesale Banking increased by 20 per cent to \$1,710 million. Underlying expense growth was 13 per cent. Investment spend focused on enhancing global market product capabilities and client coverage with an emphasis on corporate finance and capital markets and the high growth markets of India, China and the UAE. Higher transaction volumes plus continued upgrading of the technology and operations infrastructure and preparation for Basel II made up the balance.

The net loan impairment release in 2005 was \$106 million compared to \$28 million in the prior period. New provisions increased by three per cent and recoveries were up by 60 per cent.

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

| 2005             |                     |                  |                 |              |                                 |              |                                             |               |                                                    |                                      |
|------------------|---------------------|------------------|-----------------|--------------|---------------------------------|--------------|---------------------------------------------|---------------|----------------------------------------------------|--------------------------------------|
|                  | Asia Pacific        |                  |                 |              |                                 | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$m | Wholesale<br>Banking<br>Total<br>\$m |
|                  | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m |              |                                             |               |                                                    |                                      |
| Income           | 523                 | 188              | 124             | 259          | 443                             | 305          | 430                                         | 294           | 488                                                | 3,054                                |
| Expenses         | (234)               | (120)            | (55)            | (127)        | (268)                           | (127)        | (157)                                       | (194)         | (428)                                              | (1,710)                              |
| Loan impairment  | (83)                | (13)             | 7               | (5)          | 117                             | 6            | 42                                          | (30)          | 65                                                 | 106                                  |
| Other impairment | (1)                 | –                | –               | –            | –                               | 1            | –                                           | (8)           | (3)                                                | (11)                                 |
| Operating profit | 205                 | 55               | 76              | 127          | 292                             | 185          | 315                                         | 62            | 122                                                | 1,439                                |

| 2004             |                     |                  |                 |              |                                 |              |                                             |               |                                                    |                                      |
|------------------|---------------------|------------------|-----------------|--------------|---------------------------------|--------------|---------------------------------------------|---------------|----------------------------------------------------|--------------------------------------|
|                  | Asia Pacific        |                  |                 |              |                                 | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$m | Wholesale<br>Banking<br>Total<br>\$m |
|                  | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m |              |                                             |               |                                                    |                                      |
| Income           | 416                 | 183              | 95              | 63           | 362                             | 231          | 352                                         | 366           | 506                                                | 2,574                                |
| Expenses         | (226)               | (111)            | (58)            | (29)         | (252)                           | (98)         | (125)                                       | (164)         | (363)                                              | (1,426)                              |
| Specific         | (54)                | (2)              | 11              | 3            | 19                              | 3            | 13                                          | (6)           | 15                                                 | 2                                    |
| General          | 6                   | 3                | 1               | –            | 4                               | 2            | 4                                           | –             | 6                                                  | 26                                   |
| Loan impairment  | (48)                | 1                | 12              | 3            | 23                              | 5            | 17                                          | (6)           | 21                                                 | 28                                   |
| Other impairment | –                   | –                | –               | –            | –                               | 2            | –                                           | –             | (3)                                                | (1)                                  |
| Operating profit | 142                 | 73               | 49              | 37           | 133                             | 140          | 244                                         | 196           | 161                                                | 1,175                                |

\* Middle East and Other S Asia includes UAE income of \$173 million (2004: \$147 million), expenses of \$66 million (2004: \$49 million), loan impairment recovery of \$1 million (2004: recovery of \$8 million) and operating profit of \$108 million (2004: \$106 million).

## Financial Review continued

### Wholesale Banking continued

When looking at the performance of Wholesale Banking on a geographic basis it is important to note that it is a network business, with about half of client revenues originated in a different geography than where they are booked. This means the geographic segmentation can give a somewhat imperfect view of the performance of different parts of the business.

In Hong Kong, income grew by 26 per cent to \$523 million as the increased focus on the local corporates segment yielded good results. Global markets and cash products generated strong growth in volumes supported by improved margins. Expenses grew four per cent to \$234 million with most of this increase directed towards building the sales force and product capabilities to deepen income generation from existing client relationships.

Income in Singapore was up three per cent to \$188 million driven by transaction banking together with global markets sales. Double-digit client income growth was offset by a reduction in trading and ALM income. Singapore continues to increase its franchise value, originating significant revenues for other parts of the network. Expenses grew eight per cent to \$120 million reflecting increased front office investments to sustain the strong client revenue momentum.

In Malaysia, income increased 31 per cent to \$124 million with global markets products now contributing 64 per cent of the total. The business achieved strong growth in the large local corporate sector. Expenses were lower by five per cent at \$55 million.

The Wholesale Banking business in SCFB earned \$90 million of operating profit on income of \$188 million. Income and volumes of global markets product sales, together with cash management and custody, grew in the second half as the significant investment in more sophisticated products, new skills and infrastructure began to deliver benefits.

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

| Income by product           | 2005         |             |                   | 2004  |
|-----------------------------|--------------|-------------|-------------------|-------|
|                             | Total<br>\$m | SCFB<br>\$m | Underlying<br>\$m | \$m   |
| Trade and Lending           | 879          | 69          | 810               | 868   |
| Global Markets              | 1,434        | 75          | 1,359             | 1,217 |
| Cash Management and Custody | 741          | 44          | 697               | 489   |
|                             | 3,054        | 188         | 2,866             | 2,574 |

Trade and lending income increased one per cent overall to \$879 million and decreased by seven per cent on an underlying basis due to lower lending income. Trade finance income grew three per cent reflecting the increased competitiveness in pricing and a shift to integrated supply chain financing to support strong intra-Asian trade flows.

Global markets income grew strongly at 18 per cent overall to \$1,434 million and 12 per cent on an underlying basis. The

Other APR continued to deliver strong growth in income and profits from all countries with significant contributions from China, Indonesia and Taiwan. Income increased 22 per cent to \$443 million and expenses grew six per cent to \$268 million.

India's income grew 32 per cent to \$305 million with client income growing at an even higher rate offset by lower trading and ALM income. Growth was balanced across all target segments with transactional banking and global markets products leading the way. Expenses grew 30 per cent to \$127 million, with continued investment in geographic expansion to sustain the momentum amongst local corporates.

Operating profit in the Middle East and Other South Asia grew by 29 per cent to \$315 million. Income rose 22 per cent to \$430 million and expenses 26 per cent to \$157 million. Client revenues enjoyed very strong growth in cash, capital markets and corporate finance products. Within this total the Wholesale Banking business in the UAE grew income by 18 per cent.

In Africa, income at \$294 million was 20 per cent lower than in the prior year. A marked deterioration in Zimbabwe was the primary contributor to this result. 2005 saw Zimbabwe suffer from high inflation and very rapid currency depreciation, particularly in the fourth quarter. Elsewhere in Africa, Wholesale Banking saw robust income growth in Nigeria, Ghana and Tanzania, driven by cash management, trade and corporate finance.

The Americas, UK and Group Head Office has seen income decline by four per cent to \$488 million mainly as a result of lower income from asset and liability management. Expense growth of 18 per cent reflects the full year impact of the project finance business acquired at the end of 2004, which originates revenues largely booked elsewhere, together with significant investment in compliance and control infrastructure.

enhanced product set, including FX options, fixed income and project and export finance, has made a significant contribution to this growth. Income from ALM has fallen due to the flat yield curves and rising interest rates prevalent in most markets, particularly in the second half.

Cash management and custody income was up by 52 per cent at \$741 million. Underlying growth was also very strong at 43 per cent driven by volume and margin growth.

**Acquisition of SC First Bank (formerly Korea First Bank)**

On 15 April 2005 the Group acquired 100 per cent of SCFB. The post-acquisition profit has been included in the Group results within the Korea geographic segment. The following tables provides an analysis of SCFB's post acquisition results by business segment:

**Consumer Banking**

|                         | 2005         |             |                   | 2004         |
|-------------------------|--------------|-------------|-------------------|--------------|
|                         | Total<br>\$m | SCFB<br>\$m | Underlying<br>\$m | \$m          |
| Income                  | 3,807        | 671         | 3,136             | 2,700        |
| Expenses                | (2,101)      | (486)       | (1,615)           | (1,400)      |
| Loan impairment         | (425)        | (48)        | (377)             | (242)        |
| Other impairment        | (3)          | –           | (3)               | –            |
| <b>Operating profit</b> | <b>1,278</b> | <b>137</b>  | <b>1,141</b>      | <b>1,058</b> |

SCFB Consumer Banking income was broadly based with margin, volume and fee income growth in wealth management and SME banking. Mortgage and unsecured lending volumes have continued to grow but margin compression impacted income growth.

**Wholesale Banking**

|                         | 2005         |             |                   | 2004         |
|-------------------------|--------------|-------------|-------------------|--------------|
|                         | Total<br>\$m | SCFB<br>\$m | Underlying<br>\$m | \$m          |
| Income                  | 3,054        | 188         | 2,866             | 2,574        |
| Expenses                | (1,710)      | (93)        | (1,617)           | (1,426)      |
| Loan impairment         | 106          | (5)         | 111               | 28           |
| Other impairment        | (11)         | –           | (11)              | (1)          |
| <b>Operating profit</b> | <b>1,439</b> | <b>90</b>   | <b>1,349</b>      | <b>1,175</b> |

SCFB Wholesale Banking income is being generated by a broader product set and client base. New global markets products and cash management are now driving growth while balance sheet reshaping continues in lending.

**Korea segment – Total**

|                         | 2005         |             |                   | 2004      |
|-------------------------|--------------|-------------|-------------------|-----------|
|                         | Total<br>\$m | SCFB<br>\$m | Underlying<br>\$m | \$m       |
| Income                  | 954          | 859         | 95                | 70        |
| Expenses                | (632)        | (579)       | (53)              | (41)      |
| Loan impairment         | (61)         | (53)        | (8)               | 3         |
| <b>Operating profit</b> | <b>261</b>   | <b>227</b>  | <b>34</b>         | <b>32</b> |

Operating profit from SCFB for the eight and a half months since taking control on 15 April 2005 was \$227 million. Operating income for the period was \$859 million, expenses were \$579 million and loan impairment was \$53 million.

## Financial Review continued

### Risk

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

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

- ensuring that business activities are controlled on the basis of risk adjusted return;
- managing risk within agreed parameters with risk quantified wherever possible;
- assessing risk at the outset and throughout the time that we continue to be exposed to it;
- abiding by all applicable laws, regulations and governance standards in every country in which we do business;
- applying high and consistent ethical standards to our relationships with all customers, employees and other stakeholders; and
- undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

### Risk Management Framework

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

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

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

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

The Group Finance Director and the Group Head of Risk manage a risk function that is separate from the business line which:

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

Individual GEDs are accountable for risk management in their businesses and support functions and for countries where they have governance responsibilities. This includes:

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

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

The Group Finance Director and the Group Head of Risk, together with Group Internal Audit, provides assurance separate from the business lines that risk is being measured and managed in accordance with the Group's standards and policies.

### Credit Risk Management

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

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

Clear responsibility for credit risk is delegated from the Board through to the GRC. Standards are approved by the GRC which also delegates credit authorities through the Group Finance Director to the Group Head of Risk, the Group and Regional Credit Committees and independent Risk Officers at Group and at the Wholesale Banking and Consumer Banking business levels.

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

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

## Risk continued

## Wholesale Banking

Within the Wholesale Banking business, a numerical grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure with customers analysed against a range of quantitative and qualitative measures. There is a clear segregation of duties with loan applications being prepared separately from the approval chain. Significant exposures are reviewed and approved centrally through a Group or Regional level Credit Committee. These Committees receive their authority and delegated responsibilities from the GRC.

## Consumer Banking

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

## Loan Portfolio

Loans and advances to customers have increased by 55 per cent during the year to \$112.2 billion. Of this increase, SCFB accounts for \$31.2 billion (28 per cent).

The Wholesale Banking portfolio is well diversified across both geography and industry, with no significant concentration to sub-industry classification levels under manufacturing, financing, insurance and business services, commerce or transport, storage and communication.

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

\* Middle East and Other S Asia includes the following amounts relating to the UAE: Consumer Banking, \$915 million (2004: \$832 million) Wholesale Banking, \$2,448 million (2004: \$2,300 million), total loans and advances to customers, \$3,363 million (2004: \$3,132 million), and total loans and advances to banks, \$391 million (2004: \$237 million).

## Financial Review continued

### Risk continued

|                                              | 2004          |               |              |              |                        |                                 |              |                                     |               |
|----------------------------------------------|---------------|---------------|--------------|--------------|------------------------|---------------------------------|--------------|-------------------------------------|---------------|
|                                              | Asia Pacific  |               |              |              |                        | #Middle East & Other S Asia \$m | Africa \$m   | Americas UK & Group Head Office \$m | #Total \$m    |
|                                              | Hong Kong \$m | Singapore \$m | Malaysia \$m | Korea \$m    | Other Asia Pacific \$m |                                 |              |                                     |               |
| Loans to individuals                         |               |               |              |              |                        |                                 |              |                                     |               |
| Mortgages                                    | 12,189        | 5,064         | 2,422        | –            | 737                    | 1,194                           | 87           | 63                                  | 22,018        |
| Other                                        | 2,097         | 651           | 488          | 194          | 2,909                  | 1,201                           | 1,928        | 431                                 | 10,001        |
| Small and medium enterprises                 | 731           | 1,622         | 578          | –            | 200                    | 230                             | 42           | 76                                  | 3,479         |
| Consumer Banking                             | 15,017        | 7,337         | 3,488        | 194          | 3,846                  | 2,625                           | 2,057        | 570                                 | 35,498        |
| Agriculture, forestry and fishing            | –             | 26            | 55           | –            | 56                     | 15                              | 19           | 171                                 | 656           |
| Construction                                 | 154           | 27            | 6            | –            | 34                     | 105                             | 239          | 46                                  | 615           |
| Commerce                                     | 1,560         | 804           | 136          | 31           | 864                    | 262                             | 1,202        | 353                                 | 6,325         |
| Electricity, gas and water                   | 387           | 40            | 71           | 78           | 193                    | 104                             | 119          | 102                                 | 1,394         |
| Financing, insurance and business services   | 1,914         | 1,608         | 554          | 41           | 721                    | 497                             | 1,362        | 47                                  | 9,012         |
| Loans to governments                         | –             | 306           | 1,551        | –            | –                      | –                               | 16           | 7                                   | 2,105         |
| Mining and quarrying                         | –             | 65            | 63           | –            | 122                    | 1                               | 149          | 95                                  | 1,527         |
| Manufacturing                                | 1,343         | 423           | 269          | 316          | 2,196                  | 814                             | 1,267        | 404                                 | 9,326         |
| Commercial real estate                       | 984           | 721           | 2            | –            | 388                    | –                               | –            | 29                                  | 2,126         |
| Transport, storage and communication         | 366           | 280           | 128          | 134          | 187                    | 226                             | 299          | 165                                 | 2,962         |
| Other                                        | 19            | 128           | 51           | –            | 354                    | 43                              | 243          | 24                                  | 948           |
| Wholesale Banking                            | 6,727         | 4,428         | 2,886        | 600          | 5,115                  | 2,067                           | 4,915        | 1,443                               | 36,996        |
| General Provision                            |               |               |              |              |                        |                                 |              | (335)                               | (335)         |
| <b>Total loans and advances to customers</b> | <b>21,744</b> | <b>11,765</b> | <b>6,374</b> | <b>794</b>   | <b>8,961</b>           | <b>4,692</b>                    | <b>6,972</b> | <b>2,013</b>                        | <b>72,159</b> |
| <b>Total loans and advances to banks</b>     | <b>2,852</b>  | <b>2,072</b>  | <b>349</b>   | <b>1,646</b> | <b>1,705</b>           | <b>171</b>                      | <b>892</b>   | <b>374</b>                          | <b>17,382</b> |

\* Middle East and Other S Asia includes the following amounts relating to the UAE: Consumer Banking, \$915 million (2004: \$832 million) Wholesale Banking, \$2,448 million (2004: \$2,300 million), total loans and advances to customers, \$3,363 million (2004: \$3,132 million), and total loans and advances to banks, \$391 million (2004: \$237 million).

# A reclassification of \$997 million from Other to Small and medium enterprises that was made at 30 June 2005 (31 December 2004: \$951 million) has been reversed.

### Maturity analysis

Approximately 47 per cent of the Group's loans and advances are short term having a contractual maturity of one year or less. The Wholesale Banking portfolio is predominately short term, with 75 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 65 per cent of the portfolio is in the mortgage book, traditionally longer term in nature. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, in the normal course of business they may be renewed and repaid over longer terms.

|                                        | 2005                 |                       |                     |                | 2004                 |                       |                     |               |
|----------------------------------------|----------------------|-----------------------|---------------------|----------------|----------------------|-----------------------|---------------------|---------------|
|                                        | One year or less \$m | One to five years \$m | Over five years \$m | Total \$m      | One year or less \$m | One to five years \$m | Over five years \$m | Total \$m     |
| Consumer Banking                       |                      |                       |                     |                |                      |                       |                     |               |
| Mortgages                              | 4,756                | 9,598                 | 29,717              | 44,071         | 1,877                | 4,156                 | 15,985              | 22,018        |
| Other                                  | 8,352                | 4,666                 | 1,572               | 14,590         | 5,718                | 3,880                 | 403                 | 10,001        |
| SME                                    | 5,883                | 1,687                 | 1,921               | 9,491          | 989                  | 440                   | 2,050               | 3,479         |
| Total                                  | 18,991               | 15,951                | 33,210              | 68,152         | 8,584                | 8,476                 | 18,438              | 35,498        |
| Wholesale Banking                      | 33,450               | 7,246                 | 3,696               | 44,392         | 27,670               | 5,227                 | 4,099               | 36,996        |
| Portfolio impairment provision         |                      |                       |                     | (367)          |                      |                       |                     | (335)         |
| <b>Loans and advances to customers</b> | <b>52,441</b>        | <b>23,197</b>         | <b>36,906</b>       | <b>112,177</b> | <b>36,254</b>        | <b>13,703</b>         | <b>22,537</b>       | <b>72,159</b> |

## Risk continued

Problem Credit Management and Provisioning  
Consumer Banking

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days (60 days for mortgages) are considered delinquent. These accounts are closely monitored and subject to a special collections process. Accounts that are overdue by more than 90 days are considered non-performing.

The process used for raising provisions is dependant on the product. For mortgages, individual provisions are generally raised at 150 days past due and for other secured products at 90 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future

cash flows. For unsecured products individual provisions are raised and loans are charged off at 150 days past due.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known by experience to be present in the loan portfolio including performing loans and loans overdue. The provision is set with reference to past experience using flow rate methodology as well as taking account of judgemental factors such as the economic and business environment in our core markets, and the trends in a range of portfolio indicators.

The 2005 coverage ratio includes the Consumer Banking portfolio provisions upon adoption of IAS 39, whereas 2004 comparatives exclude the UK GAAP general provision.

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

| 2004                                  |               |               |              |           |                        |           |                                 |            |                                     |           |
|---------------------------------------|---------------|---------------|--------------|-----------|------------------------|-----------|---------------------------------|------------|-------------------------------------|-----------|
| Asia Pacific                          |               |               |              |           |                        |           |                                 |            |                                     | Total \$m |
|                                       | Hong Kong \$m | Singapore \$m | Malaysia \$m | Korea \$m | Other Asia Pacific \$m | India \$m | *Middle East & Other S Asia \$m | Africa \$m | Americas UK & Group Head Office \$m |           |
| Loans and advances                    |               |               |              |           |                        |           |                                 |            |                                     |           |
| Gross non-performing                  | 72            | 146           | 181          | –         | 94                     | 42        | 42                              | 24         | 46                                  | 647       |
| Impairment provision                  | (32)          | (24)          | (28)         | –         | (47)                   | (12)      | (22)                            | (9)        | (5)                                 | (179)     |
| Interest in suspense                  | (1)           | (4)           | (24)         | –         | (7)                    | (8)       | (15)                            | (8)        | (7)                                 | (74)      |
| Net non-performing loans and advances | 39            | 118           | 129          | –         | 40                     | 22        | 5                               | 7          | 34                                  | 394       |
| Cover ratio                           |               |               |              |           |                        |           |                                 |            |                                     | 39%       |

\* Middle East and Other S Asia includes net non-performing loans and advances net of individual impairment provision relating to the UAE of \$nil (2004: \$1 million).

## Financial Review continued

### Risk continued

#### Wholesale Banking

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

Loans are designated as impaired and considered non-performing as soon as payment of interest or principal is 90 days or more overdue or where recognised weakness implies that full payment of either interest or principal becomes questionable. Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where the principal, or a portion thereof, is considered uncollectible, an individual

impairment provision is raised being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience and the results of independent asset reviews.

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

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known by experience to be present in any loan portfolio. The provision is not held to cover losses arising from future events. In Wholesale Banking, the portfolio impairment provision is set with reference to past experience using expected loss and judgemental factors such as the economic environment and the trends in key portfolio indicators.

The following tables set out the total non-performing portfolio in Wholesale Banking:

|                                                                                | 2005                |                  |                 |              |                                 |              |                                             |               |                                                    |              |
|--------------------------------------------------------------------------------|---------------------|------------------|-----------------|--------------|---------------------------------|--------------|---------------------------------------------|---------------|----------------------------------------------------|--------------|
|                                                                                | Asia Pacific        |                  |                 |              |                                 |              |                                             |               | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$m | Total<br>\$m |
|                                                                                | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m |                                                    |              |
| Loans and advances                                                             |                     |                  |                 |              |                                 |              |                                             |               |                                                    |              |
| Gross non-performing                                                           | 355                 | 125              | 36              | 156          | 133                             | 83           | 60                                          | 89            | 210                                                | 1,247        |
| Individual Impairment provision                                                | (257)               | (109)            | (33)            | (51)         | (118)                           | (27)         | (48)                                        | (51)          | (164)                                              | (858)        |
| Non-performing loans and<br>advances net of individual<br>impairment provision | 98                  | 16               | 3               | 105          | 15                              | 56           | 12                                          | 38            | 46                                                 | 389          |
| Portfolio impairment provision                                                 |                     |                  |                 |              |                                 |              |                                             |               |                                                    | (90)         |
| Net non-performing loans<br>and advances                                       |                     |                  |                 |              |                                 |              |                                             |               |                                                    | 299          |
|                                                                                | 2004                |                  |                 |              |                                 |              |                                             |               |                                                    |              |
|                                                                                | Asia Pacific        |                  |                 |              |                                 |              |                                             |               | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$m | Total<br>\$m |
|                                                                                | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m |                                                    |              |
| Loans and advances                                                             |                     |                  |                 |              |                                 |              |                                             |               |                                                    |              |
| Gross non-performing                                                           | 409                 | 185              | 117             | 1            | 557                             | 68           | 175                                         | 104           | 674                                                | 2,290        |
| Impairment provision                                                           | (257)               | (89)             | (68)            | (1)          | (255)                           | (29)         | (100)                                       | (46)          | (435)                                              | (1,280)      |
| Interest in suspense                                                           | (92)                | (56)             | (35)            | —            | (54)                            | (26)         | (68)                                        | (42)          | (127)                                              | (500)        |
| Net non-performing loans<br>and advances                                       |                     |                  |                 |              |                                 |              |                                             |               |                                                    | 510          |

\* Middle East and Other S Asia includes net non-performing loans and advances net of individual impairment provision relating to the UAE of \$nil (2004: \$5 million).

## Risk continued

## Wholesale Banking Cover Ratio

At 76 per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

The cover ratio as at December 2004 shown below was calculated on a UK GAAP basis which included interest in suspense as part of the cover. The non-performing loans

recorded below under Standard Chartered Nakornthon Bank (SCNB) are excluded from the cover ratio calculation as they were the subject of a Loan Management Agreement (LMA) with a Thai Government Agency. Refer to note 20 on page 90. Claims under the LMA were settled in the first half of 2005 and accordingly the balances reported under SCNB have reduced to \$nil in the 2005 table below.

|                                           | 2005         |                      |                          |
|-------------------------------------------|--------------|----------------------|--------------------------|
|                                           | Total<br>\$m | SCNB<br>(LMA)<br>\$m | Total excl<br>LMA<br>\$m |
| Loans and advances – Gross non-performing | 1,247        | –                    | 1,247                    |
| Impairment provision                      | (948)        | –                    | (948)                    |
| Net non-performing loans and advances     | 299          | –                    | 299                      |
| Cover ratio                               |              |                      | 76%                      |

|                                           | 2004         |                      |                          |
|-------------------------------------------|--------------|----------------------|--------------------------|
|                                           | Total<br>\$m | SCNB<br>(LMA)<br>\$m | Total excl<br>LMA<br>\$m |
| Loans and advances – Gross non-performing | 2,290        | 351                  | 1,939                    |
| Impairment provision                      | (1,280)      | (115)                | (1,165)                  |
| Interest in suspense                      | (500)        | –                    | (500)                    |
| Net non-performing loans and advances     | 510          | 236                  | 274                      |
| Cover ratio                               |              |                      | 86%                      |

## Movement in Group Individual Impairment Provision

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

|                                                 | 2005                |                  |                 |              |                                 |              |                                             |               |                                                    |              |
|-------------------------------------------------|---------------------|------------------|-----------------|--------------|---------------------------------|--------------|---------------------------------------------|---------------|----------------------------------------------------|--------------|
|                                                 | Asia Pacific        |                  |                 |              |                                 | India<br>\$m | *Middle<br>East &<br>Other<br>S Asia<br>\$m | Africa<br>\$m | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$m | Total<br>\$m |
|                                                 | Hong<br>Kong<br>\$m | Singapore<br>\$m | Malaysia<br>\$m | Korea<br>\$m | Other<br>Asia<br>Pacific<br>\$m |              |                                             |               |                                                    |              |
| Provisions held at 1 January 2005               | 289                 | 113              | 96              | 1            | 302                             | 41           | 122                                         | 55            | 440                                                | 1,459        |
| Adjusted for adoption of IAS 39                 | 5                   | 6                | 31              | –            | 17                              | 2            | 3                                           | 9             | 17                                                 | 90           |
| Restated provision held at<br>1 January 2005    | 294                 | 119              | 127             | 1            | 319                             | 43           | 125                                         | 64            | 457                                                | 1,549        |
| Exchange translation differences                | (7)                 | (2)              | 1               | 4            | (8)                             | (1)          | 5                                           | (4)           | (13)                                               | (25)         |
| Amounts written off                             | (156)               | (30)             | (58)            | (21)         | (204)                           | (66)         | (70)                                        | (43)          | (223)                                              | (871)        |
| Recoveries of amounts previously<br>written off | 49                  | 6                | 11              | 5            | 36                              | 21           | 14                                          | 4             | 7                                                  | 153          |
| Acquisitions                                    | –                   | –                | –               | 352          | –                               | –            | –                                           | –             | –                                                  | 352          |
| Discount unwind                                 | (3)                 | (3)              | (4)             | (28)         | (2)                             | (1)          | –                                           | (2)           | (5)                                                | (48)         |
| Other                                           | 1                   | –                | –               | –            | 19                              | (1)          | 1                                           | (2)           | 3                                                  | 21           |
| New provisions                                  | 165                 | 92               | 62              | 57           | 153                             | 105          | 48                                          | 60            | 12                                                 | 754          |
| Recoveries/provisions<br>no longer required     | (64)                | (42)             | (43)            | (9)          | (134)                           | (60)         | (59)                                        | (17)          | (71)                                               | (499)        |
| Net charge against/(credit) to profit           | 101                 | 50               | 19              | 48           | 19                              | 45           | (11)                                        | 43            | (59)                                               | 255          |
| Provisions held at 31 December 2005             | 279                 | 140              | 96              | 361          | 179                             | 40           | 64                                          | 60            | 167                                                | 1,386        |

\* Middle East and Other S Asia provisions at 31 December 2005 includes \$26 million (2004: \$42 million) relating to the UAE.

## Financial Review continued

### Risk continued

|                                              | 2004          |               |              |           |                        |                                 |            |                                     |           |
|----------------------------------------------|---------------|---------------|--------------|-----------|------------------------|---------------------------------|------------|-------------------------------------|-----------|
|                                              | Asia Pacific  |               |              |           |                        | *Middle East & Other S Asia \$m | Africa \$m | Americas UK & Group Head Office \$m | Total \$m |
|                                              | Hong Kong \$m | Singapore \$m | Malaysia \$m | Korea \$m | Other Asia Pacific \$m |                                 |            |                                     |           |
| Provisions held at 1 January 2004            | 268           | 123           | 144          | –         | 390                    | 55                              | 158        | 58                                  | 1,661     |
| Exchange translation differences             | –             | 3             | –            | –         | 2                      | 2                               | (4)        | 2                                   | 13        |
| Acquisitions                                 | –             | –             | –            | –         | 36                     | –                               | –          | –                                   | 36        |
| Amounts written off                          | (154)         | (62)          | (63)         | –         | (142)                  | (65)                            | (42)       | (21)                                | (607)     |
| Recoveries of amounts previously written off | 29            | 7             | 10           | –         | 12                     | 24                              | 7          | 4                                   | 95        |
| Other                                        | 4             | –             | (2)          | –         | (42)                   | (1)                             | (5)        | –                                   | (8)       |
| New provision                                | 207           | 60            | 36           | 1         | 94                     | 106                             | 43         | 27                                  | 609       |
| Recoveries/provisions no longer required     | (65)          | (18)          | (29)         | –         | (48)                   | (80)                            | (35)       | (15)                                | (340)     |
| Net charge against/(credit) to profit        | 142           | 42            | 7            | 1         | 46                     | 26                              | 8          | 12                                  | 269       |
| Provisions held at 31 December 2004          | 289           | 113           | 96           | 1         | 302                    | 41                              | 122        | 55                                  | 1,459     |

\* Middle East and Other S Asia provisions at 31 December 2005 includes \$26 million (2004: \$42 million) relating to the UAE.

#### Country Risk

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

The GRC approves country risk and delegates the setting and management of country limits to the Group Head, Credit and Country Risk.

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 cross border assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

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

|             | 2005              |           |           |           | 2004              |           |           |           |
|-------------|-------------------|-----------|-----------|-----------|-------------------|-----------|-----------|-----------|
|             | Public sector \$m | Banks \$m | Other \$m | Total \$m | Public sector \$m | Banks \$m | Other \$m | Total \$m |
| USA         | 1,227             | 555       | 2,505     | 4,287     | 824               | 745       | 2,660     | 4,229     |
| Korea       | 13                | 1,476     | 2,006     | 3,495     | 47                | 1,258     | 698       | 2,003     |
| Hong Kong   | 1                 | 311       | 2,776     | 3,088     | 4                 | 199       | 2,719     | 2,922     |
| France      | 159               | 2,550     | 155       | 2,864     | 149               | 1,243     | 183       | 1,575     |
| China       | 63                | 982       | 1,405     | 2,450     | 101               | 686       | 902       | 1,689     |
| India       | 1                 | 949       | 1,456     | 2,406     | 74                | 1,132     | 867       | 2,073     |
| Singapore   | –                 | 326       | 1,945     | 2,271     | –                 | 325       | 1,939     | 2,264     |
| Netherlands | –                 | –         | –         | –         | –                 | 2,639     | 406       | 3,045     |

## Risk continued

### Market Risk

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

Market Risk is governed by the GRC, which agrees policies and levels of risk appetite in terms of Value at Risk (VaR). The Group Market Risk Committee (GMR) provides market risk oversight and guidance on policy setting. Policies cover the trading book of the Group and also market risks within the banking book. Trading and Banking books are defined as per the Financial Services Authority (FSA) Handbook IPRU (Bank). Limits by location and portfolio are proposed by the businesses within the terms of agreed policy. GMR approves the limits within delegated authorities and monitors exposures against these limits.

GMR 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. In addition, VaR models are back tested against actual results to ensure pre-determined levels of accuracy are maintained.

Additional limits are placed on specific instruments and currency concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. Option risks are controlled through revaluation limits on currency and volatility shifts, limits on volatility risk by currency pair and other underlying variables that determine the options' value.

### Value at Risk

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

The total VaR for trading and banking books combined at 31 December 2005 was \$10.8 million (31 December 2004: \$15.4 million).

Interest rate related VaR was \$10.3 million (31 December 2004: \$15.6 million) and foreign exchange related VaR was \$1.1 million (31 December 2004: \$3.0 million).

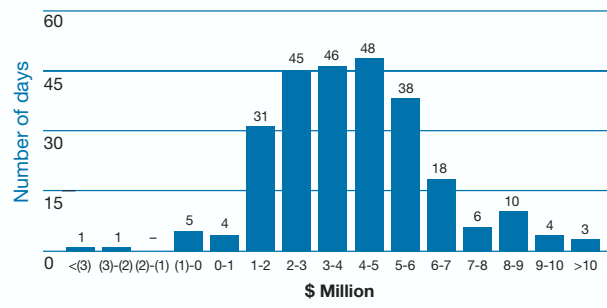
The average total VaR for trading and banking books during the year to 31 December 2005 was \$12.4 million (31 December 2004: \$15.8 million) with a maximum exposure of \$20.6 million.

VaR for interest rate risk in the banking books of the Group totalled \$9.2 million at 31 December 2005 (31 December 2004: \$16.7 million).

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

The average daily income earned from market risk related activities was \$4.1 million, compared with \$3.8 million during 2004.

### Revenue Distribution



### Foreign Exchange Exposure

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

Foreign exchange trading exposures are principally derived from customer driven transactions. The average daily income from foreign exchange trading businesses during 2005 was \$2.0 million (2004: \$1.6 million).

### Interest Rate Exposure

The Group's interest rate exposures comprise trading exposures and non-trading interest rate exposures.

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

The average daily income from interest rate trading businesses during 2005 was \$2.1 million (2004: \$2.2 million).

### Derivatives

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

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

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

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

The Group applies a future exposure methodology to manage counterparty credit exposure associated with derivative transactions. Please refer to note 50 on page 125 for further information on Market Risk.

### Hedging

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

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

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

## Financial Review continued

### Risk continued

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

### Liquidity Risk

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

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

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

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

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

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

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

Policies and guidelines for the setting and maintenance of capital ratio levels are also delegated by GALCO. Group ratios are monitored centrally by Group Corporate Treasury, while local requirements are monitored by the local ALCO.

### Operational Risk

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

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

A Group operational risk function separate from the business lines is responsible for establishing and maintaining the overall operational risk framework, and for monitoring the Group's key operational risk exposures. This unit is supported by Wholesale Banking and Consumer Banking Operational Risk units. They are responsible 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.

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

### Compliance and Regulatory Risk

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

### Legal Risk

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

### Reputational Risk

Reputational Risk is the risk of failing to meet the standards of performance or behaviour required or expected by stakeholders in commercial activities or the way in which business is conducted. Reputational Risks arise as a result of poor management of problems occurring in one or more of the primary banking risk areas (Credit, Market, Operational risk areas) and/or from Social, Ethical or Environmental Risk issues. All members of staff have a responsibility for maintaining the Group's reputation.

The Group manages reputational risk through the Group Reputational Risk Committee, which reports to the GRC, and through Country Management Committees. Wholesale Banking has a specialised 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.

### Independent Monitoring

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

## Capital

The Group Asset and Liability Committee targets Tier 1 and Total capital ratios of 7-9 per cent and 12-14 per cent respectively.

|                                                           | 2005<br>\$m    | *2004<br>\$m  |
|-----------------------------------------------------------|----------------|---------------|
| <b>Tier 1 capital:</b>                                    |                |               |
| Called up ordinary share capital and preference shares    | 5,982          | 3,818         |
| Eligible reserves                                         | 6,151          | 4,617         |
| Minority interests                                        | 115            | 111           |
| Innovative Tier 1 securities                              | 1,542          | 1,246         |
| Less: Restriction on innovative Tier 1 securities         | (83)           | (68)          |
| Goodwill and other intangible assets                      | (4,321)        | (1,900)       |
| Unconsolidated associated companies                       | 186            | 30            |
| Other regulatory adjustments                              | 153            | 110           |
| <b>Total Tier 1 capital</b>                               | <b>9,725</b>   | <b>7,964</b>  |
| <b>Tier 2 capital:</b>                                    |                |               |
| Eligible revaluation reserves                             | 195            | –             |
| Portfolio impairment provision (2004: general provision)  | 368            | 335           |
| Qualifying subordinated liabilities:                      |                |               |
| Perpetual subordinated debt                               | 3,128          | 1,961         |
| Other eligible subordinated debt                          | 4,169          | 3,525         |
| Less: Amortisation of qualifying subordinated liabilities | (229)          | –             |
| Restricted innovative Tier 1 securities                   | 83             | 68            |
| <b>Total Tier 2 capital</b>                               | <b>7,714</b>   | <b>5,889</b>  |
| Investments in other banks                                | (148)          | (33)          |
| Other deductions                                          | (173)          | (34)          |
| <b>Total capital base</b>                                 | <b>17,118</b>  | <b>13,786</b> |
| <b>Banking book:</b>                                      |                |               |
| Risk weighted assets                                      | 99,378         | 69,438        |
| Risk weighted contingents                                 | 16,274         | 14,847        |
|                                                           | <b>115,652</b> | <b>84,285</b> |
| <b>Trading book:</b>                                      |                |               |
| Market risks                                              | 6,701          | 4,608         |
| Counterparty/settlement risk                              | 3,571          | 3,231         |
| <b>Total risk weighted assets and contingents</b>         | <b>125,924</b> | <b>92,124</b> |
| <b>Capital ratios:</b>                                    |                |               |
| Tier 1 capital                                            | 7.7%           | 8.6%          |
| <b>Total capital</b>                                      | <b>13.6%</b>   | <b>15.0%</b>  |

\* As previously reported under UK GAAP.

**Annex C – Audited Consolidated Financial Statements as of and for the year ended  
December 31, 2006**

The audited consolidated financial statements of the Group as of and for the year ended December 31, 2006 are prepared in accordance with IFRS.

# Independent Auditor's Report to the members of Standard Chartered PLC

We have audited the Group (Standard Chartered PLC and its subsidiaries) and Company (Standard Chartered PLC) financial statements (together referred to as the "financial statements") for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 74.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of Directors includes information presented in the Chairman's statement, the Group Chief Executive's Review and the Financial and Business Reviews that are cross referenced from the Report of the Directors. In addition we report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

**KPMG Audit Plc**  
London  
Chartered Accountants  
Registered Auditor  
27 February 2007

# Consolidated Income Statement

For the year ended 31 December 2006

|                                                                          | Notes | 2006                                   |                           |                    | 2005                                   |                           |                    |
|--------------------------------------------------------------------------|-------|----------------------------------------|---------------------------|--------------------|----------------------------------------|---------------------------|--------------------|
|                                                                          |       | Excluding<br>acquisitions<br>\$million | Acquisitions<br>\$million | Total<br>\$million | Excluding<br>acquisitions<br>\$million | Acquisitions<br>\$million | Total<br>\$million |
| Interest income                                                          | 3     | 12,810                                 | 177                       | <b>12,987</b>      | 6,938                                  | 1,812                     | 8,750              |
| Interest expense                                                         | 4     | (7,576)                                | (83)                      | <b>(7,659)</b>     | (3,384)                                | (1,031)                   | (4,415)            |
| <b>Net interest income</b>                                               |       | 5,234                                  | 94                        | <b>5,328</b>       | 3,554                                  | 781                       | 4,335              |
| Fees and commission income                                               |       | 2,232                                  | 43                        | <b>2,275</b>       | 1,724                                  | 116                       | 1,840              |
| Fees and commission expense                                              |       | (392)                                  | (2)                       | <b>(394)</b>       | (258)                                  | (87)                      | (345)              |
| Net trading income                                                       | 5     | 914                                    | 6                         | <b>920</b>         | 746                                    | 23                        | 769                |
| Other operating income                                                   | 6     | 485                                    | 6                         | <b>491</b>         | 236                                    | 26                        | 262                |
|                                                                          |       | 3,239                                  | 53                        | <b>3,292</b>       | 2,448                                  | 78                        | 2,526              |
| <b>Operating income</b>                                                  |       | 8,473                                  | 147                       | <b>8,620</b>       | 6,002                                  | 859                       | 6,861              |
| Staff costs                                                              | 7     | (2,873)                                | (40)                      | <b>(2,913)</b>     | (1,834)                                | (311)                     | (2,145)            |
| Premises costs                                                           | 7     | (439)                                  | (5)                       | <b>(444)</b>       | (321)                                  | (42)                      | (363)              |
| General administrative expenses                                          | 7     | (1,144)                                | (27)                      | <b>(1,171)</b>     | (861)                                  | (159)                     | (1,020)            |
| Depreciation and amortisation                                            | 8     | (249)                                  | (19)                      | <b>(268)</b>       | (216)                                  | (67)                      | (283)              |
| <b>Operating expenses</b>                                                |       | (4,705)                                | (91)                      | <b>(4,796)</b>     | (3,232)                                | (579)                     | (3,811)            |
| <b>Operating profit before impairment losses and taxation</b>            |       | 3,768                                  | 56                        | <b>3,824</b>       | 2,770                                  | 280                       | 3,050              |
| Impairment losses on loans and advances and other credit risk provisions | 19    | (611)                                  | (18)                      | <b>(629)</b>       | (266)                                  | (53)                      | (319)              |
| Other impairment                                                         | 9     | (15)                                   | –                         | <b>(15)</b>        | (50)                                   | –                         | (50)               |
| Loss from associates                                                     | 22    | (2)                                    | –                         | <b>(2)</b>         | –                                      | –                         | –                  |
| <b>Profit before taxation</b>                                            |       | 3,140                                  | 38                        | <b>3,178</b>       | 2,454                                  | 227                       | 2,681              |
| Taxation                                                                 | 10    | (812)                                  | (12)                      | <b>(824)</b>       | (657)                                  | (53)                      | (710)              |
| <b>Profit for the year</b>                                               |       | 2,328                                  | 26                        | <b>2,354</b>       | 1,797                                  | 174                       | 1,971              |
| Profit attributable to:                                                  |       |                                        |                           |                    |                                        |                           |                    |
| Minority interests                                                       | 39    | 75                                     | 1                         | <b>76</b>          | 25                                     | –                         | 25                 |
| Parent company's shareholders                                            |       | 2,253                                  | 25                        | <b>2,278</b>       | 1,772                                  | 174                       | 1,946              |
| <b>Profit for the year</b>                                               |       | 2,328                                  | 26                        | <b>2,354</b>       | 1,797                                  | 174                       | 1,971              |
| <b>Basic earnings per ordinary share</b>                                 | 12    |                                        |                           | <b>169.0c</b>      |                                        |                           | 148.5c             |
| <b>Diluted earnings per ordinary share</b>                               | 12    |                                        |                           | <b>167.0c</b>      |                                        |                           | 146.9c             |

# Consolidated Balance Sheet

## As at 31 December 2006

|                                                                 | Notes | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------------------|-------|-------------------|-------------------|
| <b>Assets</b>                                                   |       |                   |                   |
| Cash and balances at central banks                              | 41    | 7,698             | 8,012             |
| Financial assets held at fair value through profit or loss      | 14    | 15,715            | 10,333            |
| Derivative financial instruments                                | 15    | 13,154            | 9,370             |
| Loans and advances to banks                                     | 16,19 | 19,724            | 21,701            |
| Loans and advances to customers                                 | 17,19 | 139,330           | 111,791           |
| Investment securities                                           | 21    | 49,487            | 37,863            |
| Interests in associates                                         | 22    | 218               | 128               |
| Goodwill and intangible assets                                  | 24    | 6,146             | 4,321             |
| Property, plant and equipment                                   | 25    | 2,168             | 1,644             |
| Deferred tax assets                                             | 26    | 538               | 498               |
| Other assets                                                    | 27    | 8,601             | 7,163             |
| Prepayments and accrued income                                  |       | 3,268             | 2,272             |
| <b>Total assets</b>                                             |       | <b>266,047</b>    | <b>215,096</b>    |
| <b>Liabilities</b>                                              |       |                   |                   |
| Deposits by banks                                               | 28    | 26,233            | 18,834            |
| Customer accounts                                               | 29    | 147,382           | 119,931           |
| Financial liabilities held at fair value through profit or loss | 30    | 9,969             | 6,293             |
| Derivative financial instruments                                | 15    | 13,703            | 9,864             |
| Debt securities in issue                                        | 31    | 23,514            | 25,913            |
| Current tax liabilities                                         |       | 68                | 283               |
| Other liabilities                                               | 33    | 11,355            | 8,446             |
| Accruals and deferred income                                    |       | 3,210             | 2,319             |
| Provisions for liabilities and charges                          | 34    | 45                | 55                |
| Retirement benefit obligations                                  | 35    | 472               | 476               |
| Subordinated liabilities and other borrowed funds               | 36    | 12,699            | 10,349            |
| <b>Total liabilities</b>                                        |       | <b>248,650</b>    | <b>202,763</b>    |
| <b>Equity</b>                                                   |       |                   |                   |
| Share capital                                                   | 37    | 692               | 660               |
| Reserves                                                        | 38    | 16,161            | 11,222            |
| <b>Total parent company shareholders' equity</b>                |       | <b>16,853</b>     | <b>11,882</b>     |
| Minority interests                                              | 39    | 544               | 451               |
| <b>Total equity</b>                                             |       | <b>17,397</b>     | <b>12,333</b>     |
| <b>Total equity and liabilities</b>                             |       | <b>266,047</b>    | <b>215,096</b>    |

These accounts were approved by the Board of Directors on 27 February 2007 and signed on its behalf by:

**E M Davies**  
Chairman

**P A Sands**  
Group Chief Executive

**R H Meddings**  
Group Finance Director

## Statement of Recognised Income and Expense

For the year ended 31 December 2006

|                                                           | Notes | Group             |                   | Company           |                   |
|-----------------------------------------------------------|-------|-------------------|-------------------|-------------------|-------------------|
|                                                           |       | 2006<br>\$million | 2005<br>\$million | 2006<br>\$million | 2005<br>\$million |
| Exchange differences on translation of foreign operations |       | 670               | (90)              | –                 | –                 |
| Actuarial gains/(losses) on retirement benefits           | 35    | 104               | (150)             | –                 | –                 |
| Available for sale investments:                           |       |                   |                   |                   |                   |
| Valuation gains taken to equity                           |       | 682               | 7                 | –                 | –                 |
| Transferred to income on disposal/redemption              |       | (190)             | (107)             | –                 | –                 |
| Cash flow hedges:                                         |       |                   |                   |                   |                   |
| Gains/(losses) taken to equity                            |       | 79                | (65)              | –                 | –                 |
| Losses/(gains) transferred to income for the year         |       | 20                | (20)              | –                 | –                 |
| Taxation on items recognised directly in equity           |       | (131)             | 141               | –                 | –                 |
| Other                                                     |       | 7                 | 1                 | (3)               | 2                 |
| Net income/(expense) recognised in equity                 |       | 1,241             | (283)             | (3)               | 2                 |
| Profit for the year                                       |       | 2,354             | 1,971             | 686               | 796               |
| <b>Total recognised income and expenses for the year</b>  |       | <b>3,595</b>      | <b>1,688</b>      | <b>683</b>        | <b>798</b>        |
| Attributable to:                                          |       |                   |                   |                   |                   |
| Parent company's shareholders                             | 38    | 3,484             | 1,663             | 683               | 798               |
| Minority interests                                        | 39    | 111               | 25                | –                 | –                 |
|                                                           |       | <b>3,595</b>      | <b>1,688</b>      | <b>683</b>        | <b>798</b>        |

# Cash Flow Statement

## For the year ended 31 December 2006

|                                                                                     | Group             |                   | Company           |                   |
|-------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                                     | 2006<br>\$million | 2005<br>\$million | 2006<br>\$million | 2005<br>\$million |
| <b>Cash flow from operating activities</b>                                          |                   |                   |                   |                   |
| Profit before taxation                                                              | <b>3,178</b>      | 2,681             | <b>713</b>        | 785               |
| Adjustment for items not involving cash flow or shown separately:                   |                   |                   |                   |                   |
| Depreciation and amortisation                                                       | <b>268</b>        | 283               | –                 | –                 |
| (Gain)/Loss on disposal of property, plant and equipment                            | <b>(16)</b>       | 1                 | –                 | –                 |
| Gain on disposal of investment securities                                           | <b>(190)</b>      | (107)             | –                 | –                 |
| Amortisation of investments                                                         | <b>(257)</b>      | 17                | –                 | –                 |
| Impairment losses                                                                   | <b>629</b>        | 319               | –                 | –                 |
| Other impairment                                                                    | <b>15</b>         | 50                | –                 | –                 |
| Assets written off, net of recoveries                                               | <b>(940)</b>      | (718)             | –                 | –                 |
| Decrease/(increase) in accruals and deferred income                                 | <b>786</b>        | 952               | <b>(101)</b>      | 1,453             |
| Increase in prepayments and accrued income                                          | <b>(901)</b>      | (1,248)           | –                 | –                 |
| Net increase in mark-to-market adjustment                                           | <b>45</b>         | 939               | –                 | –                 |
| Interest accrued on subordinated loan capital                                       | <b>643</b>        | 388               | <b>115</b>        | 79                |
| UK and overseas taxes paid                                                          | <b>(903)</b>      | (611)             | –                 | –                 |
| Net increase in treasury bills and other eligible bills                             | <b>(644)</b>      | (686)             | –                 | –                 |
| Net increase in loans and advances to banks and customers                           | <b>(11,664)</b>   | (5,730)           | –                 | –                 |
| Net increase in deposits from banks, customer accounts and debt securities in issue | <b>16,914</b>     | 18,996            | –                 | –                 |
| Net increase in trading securities                                                  | <b>(3,615)</b>    | (1,494)           | –                 | –                 |
| Net increase/(decrease) in other accounts                                           | <b>5,074</b>      | (3,982)           | <b>43</b>         | 144               |
| <b>Net cash from operating activities</b>                                           | <b>8,422</b>      | 10,050            | <b>770</b>        | 2,461             |
| <b>Net cash flows from investing activities</b>                                     |                   |                   |                   |                   |
| Purchase of property plant and equipment                                            | <b>(245)</b>      | (135)             | –                 | –                 |
| Acquisition of investment in subsidiaries, net of cash acquired                     | <b>(937)</b>      | (1,093)           | <b>(2,683)</b>    | (3,681)           |
| Acquisition of treasury bills and other eligible bills                              | <b>(23,376)</b>   | (13,443)          | –                 | –                 |
| Acquisition of debt securities                                                      | <b>(47,411)</b>   | (33,655)          | –                 | –                 |
| Acquisition of equity shares                                                        | <b>(328)</b>      | (658)             | –                 | –                 |
| Redemption of capital in subsidiary                                                 | –                 | –                 | <b>1,000</b>      | –                 |
| Disposal of property, plant and equipment                                           | <b>40</b>         | 8                 | –                 | –                 |
| Disposal and maturity of treasury bills                                             | <b>22,650</b>     | 12,599            | –                 | –                 |
| Disposal and maturity of debt securities                                            | <b>40,909</b>     | 35,748            | –                 | –                 |
| Disposal of equity shares                                                           | <b>337</b>        | 351               | –                 | –                 |
| <b>Net cash used in investing activities</b>                                        | <b>(8,361)</b>    | (278)             | <b>(1,683)</b>    | (3,681)           |
| <b>Net cash flows from financing activities</b>                                     |                   |                   |                   |                   |
| Issue of ordinary share capital                                                     | <b>1,996</b>      | 2,000             | <b>1,996</b>      | 2,000             |
| Purchase of own shares, net of exercise, for share option awards                    | <b>149</b>        | (73)              | –                 | –                 |
| Interest paid on subordinated loan capital                                          | <b>(562)</b>      | (297)             | <b>(124)</b>      | (79)              |
| Gross proceeds from issue of subordinated loan capital                              | <b>1,591</b>      | 3,874             | –                 | –                 |
| Repayment of subordinated liabilities                                               | <b>(390)</b>      | (1,026)           | –                 | –                 |
| Dividends and payments to minority interests and preference shareholders            | <b>(80)</b>       | (173)             | <b>(25)</b>       | (29)              |
| Dividends paid to ordinary shareholders                                             | <b>(496)</b>      | (685)             | <b>(496)</b>      | (685)             |
| <b>Net cash from financing activities</b>                                           | <b>2,208</b>      | 3,620             | <b>1,351</b>      | 1,207             |
| <b>Net increase in cash and cash equivalents</b>                                    | <b>2,269</b>      | 13,392            | <b>438</b>        | (13)              |
| Cash and cash equivalents at beginning of year                                      | <b>35,226</b>     | 22,112            | <b>1,590</b>      | 1,603             |
| Effect of exchange rate change on cash and cash equivalents                         | <b>666</b>        | (278)             | –                 | –                 |
| <b>Cash and cash equivalents at end of year (note 41)</b>                           | <b>38,161</b>     | 35,226            | <b>2,028</b>      | 1,590             |

## Company Balance Sheet

As at 31 December 2006

|                                                   | Notes | 2006<br>\$million | 2005<br>\$million |
|---------------------------------------------------|-------|-------------------|-------------------|
| <b>Non-current assets</b>                         |       |                   |                   |
| Investments in subsidiary undertakings            | 22    | 9,656             | 7,973             |
| <b>Current assets</b>                             |       |                   |                   |
| Amounts owed by subsidiary undertakings           |       | 3,181             | 1,839             |
| Taxation                                          |       | 158               | 204               |
| Other                                             |       | 103               | 24                |
|                                                   |       | 3,442             | 2,067             |
| <b>Current liabilities</b>                        |       |                   |                   |
| Amounts owed to subsidiary undertakings           |       | 1,153             | 249               |
| Other creditors, including taxation               |       | 71                | 32                |
| Deferred income                                   |       | 154               | 53                |
|                                                   |       | 1,378             | 334               |
| <b>Net current assets</b>                         |       | 2,064             | 1,733             |
| <b>Total assets less current liabilities</b>      |       | 11,720            | 9,706             |
| <b>Non-current liabilities</b>                    |       |                   |                   |
| Subordinated liabilities and other borrowed funds | 36    | 1,977             | 1,893             |
| Deferred income                                   |       | 1,208             | 1,400             |
|                                                   |       | 8,535             | 6,413             |
| <b>Equity</b>                                     |       |                   |                   |
| Share capital                                     | 37    | 692               | 660               |
| Reserves                                          | 38    | 7,843             | 5,753             |
| <b>Total equity</b>                               |       | 8,535             | 6,413             |

These accounts were approved by the Board of Directors on 27 February 2007 and signed on its behalf by:

**E M Davies**  
Chairman

**P A Sands**  
Group Chief Executive

**R H Meddings**  
Group Finance Director

# Notes to the Accounts

## 1. Accounting Policies

### Statement of compliance

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") Interpretations as adopted by the EU (together "adopted IFRS"). In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Group has retrospectively adopted Amendment to IAS 21 – Net Investment in a Foreign Operation, Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts, Amendment to IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions and IFRIC Interpretation 4, 'Determining whether an arrangement contains a lease'. None of these had an impact on the Group's consolidated financial statements.

### Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### Consolidation

#### Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with costs directly attributable to the acquisition. Identifiable net assets and contingent liabilities acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary

acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in the Group accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

### Associates

Associates are all entities over which the Group has the ability to significantly influence the financial and operating policies and procedures, but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Joint Ventures

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements.

### Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received, if any.

### Foreign currency translation

Both the parent company financial statements and the Group financial statements are presented in US dollars, which is the presentation currency of the Group and the functional and presentation currency of the Company.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity.

## Notes to the Accounts continued

### 1. Accounting Policies continued

#### Group companies

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the presentation currency are accounted for as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### Intangible assets

##### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

##### Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (four to sixteen years).

##### Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred.

##### Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it

is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

|                              |                               |
|------------------------------|-------------------------------|
| Buildings                    | up to 50 years                |
| Leasehold improvements       | life of lease, up to 50 years |
| Equipment and motor vehicles | 3 to 15 years                 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are included in the income statement.

#### Leases

##### Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' with a corresponding liability to the lessor recognised in 'Other liabilities'. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

##### Where a Group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax and cash flows.

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances at central banks (unless restricted), treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

#### Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

#### Employee benefits

##### Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

## 1. Accounting Policies continued

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of recognised income and expense in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets, are charged to operating expenses.

### Share-based compensation

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

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. For forfeitures prior to vesting attributable to factors other than failure to satisfy market-based performance conditions, the cumulative charge incurred is credited to the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date with any changes in fair value charged or credited to staff costs in the income statement.

### Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted

as at the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

### Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares which carry a mandatory coupon, or which are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in other income.

### Share capital

Incremental costs directly attributable to the issue of new shares or options, or to the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

### Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

### Financial assets and liabilities (excluding derivatives)

The Group classifies its financial assets in the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition.

## Notes to the Accounts continued

### 1. Accounting Policies continued

#### (a) Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as trading unless they are designated as hedges.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or
- the assets or liabilities include embedded derivatives and such derivatives are not recognised separately.

#### (b) Loans and receivables

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

#### (c) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

#### (d) Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices.

#### Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

#### Subsequent measurement

Available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted financial assets or financial liabilities in active markets are based on current prices. If the market for a financial asset or financial liability is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

#### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

#### Income recognition

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the income statement using the effective interest method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, is included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

#### Impairment of financial assets

##### Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

## 1. Accounting Policies continued

### Impairment of financial assets continued

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

### Available-for-sale assets

A significant or prolonged decline in the fair value of a security below its cost is considered in determining whether an asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### Derivative financial instruments and hedge accounting

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

#### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### (c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

#### Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

## Notes to the Accounts continued

### 1. Accounting Policies continued

#### Offsetting financial instruments

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

#### Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain on the balance sheet; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

#### Interest income and expense

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

#### Hyperinflation

Where the Group has operations in countries that experience hyperinflation, the financial statements are restated for changes in general purchasing power of the local currency.

## 2. Segmental Information

The Group is organised on a worldwide basis into two main business segments: Wholesale Banking and Consumer Banking. The types of products and services within these segments are set out in the Financial Review. The Group's secondary reporting format comprises geographical segments.

### By Class of Business

|                                                                                     | 2006                          |                                |                                            |                    | 2005                          |                                |                                            |                    |
|-------------------------------------------------------------------------------------|-------------------------------|--------------------------------|--------------------------------------------|--------------------|-------------------------------|--------------------------------|--------------------------------------------|--------------------|
|                                                                                     | Consumer Banking<br>\$million | Wholesale Banking<br>\$million | Corporate items not allocated<br>\$million | Total<br>\$million | Consumer Banking<br>\$million | Wholesale Banking<br>\$million | Corporate items not allocated<br>\$million | Total<br>\$million |
| Internal income**                                                                   | (75)                          | 75                             | –                                          | –                  | (34)                          | 34                             | –                                          | –                  |
| Net interest income                                                                 | 3,545                         | 1,783                          | –                                          | 5,328              | 2,916                         | 1,419                          | –                                          | 4,335              |
| Other income                                                                        | 1,214                         | 2,065                          | 13                                         | 3,292              | 920                           | 1,606                          | –                                          | 2,526              |
| Operating income                                                                    | 4,684                         | 3,923                          | 13                                         | 8,620              | 3,802                         | 3,059                          | –                                          | 6,861              |
| Operating expenses                                                                  | (2,641)                       | (2,151)                        | (4)                                        | (4,796)            | (2,101)                       | (1,710)                        | –                                          | (3,811)            |
| Operating profit before impairment losses and taxation                              | 2,043                         | 1,772                          | 9                                          | 3,824              | 1,701                         | 1,349                          | –                                          | 3,050              |
| Impairment (losses)/releases on loans and advances and other credit risk provisions | (721)                         | 92                             | –                                          | (629)              | (425)                         | 106                            | –                                          | (319)              |
| Other impairment                                                                    | –                             | (15)                           | –                                          | (15)               | (3)                           | (11)                           | (36)                                       | (50)               |
| Loss from associates                                                                | –                             | –                              | (2)                                        | (2)                | –                             | –                              | –                                          | –                  |
| Profit before taxation                                                              | 1,322                         | 1,849                          | 7                                          | 3,178              | 1,273                         | 1,444                          | (36)                                       | 2,681              |
| Total assets employed                                                               | 88,538                        | 176,971                        | *538                                       | 266,047            | 74,134                        | 140,464                        | *498                                       | 215,096            |
| Total liabilities employed                                                          | 107,141                       | 141,441                        | *68                                        | 248,650            | 79,008                        | 123,472                        | *283                                       | 202,763            |
| Total risk weighted assets and contingents                                          | 60,380                        | 93,063                         | –                                          | 153,443            | 52,054                        | 73,870                         | –                                          | 125,924            |
| Other segment items:                                                                |                               |                                |                                            |                    |                               |                                |                                            |                    |
| Capital expenditure                                                                 | 209                           | 150                            | –                                          | 359                | 114                           | 109                            | –                                          | 223                |
| Depreciation                                                                        | 100                           | 35                             | –                                          | 135                | 87                            | 39                             | –                                          | 126                |
| Amortisation of intangible assets                                                   | 52                            | 81                             | –                                          | 133                | 74                            | 83                             | –                                          | 157                |

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

\*\* Internal income for 2005 has been restated as the Group refined its method for charging and allocating expense for capital in 2006. The restatement had no effect on total income. See note 52.

## Notes to the Accounts continued

### 2. Segmental Information continued

#### By Geographic Segment

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

|                                                                                           | 2006                      |                        |                       |                    |                                       |                    |                                         |                     |                                             |           |
|-------------------------------------------------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|-----------------------------------------|---------------------|---------------------------------------------|-----------|
|                                                                                           | Asia Pacific              |                        |                       |                    |                                       |                    |                                         |                     | Americas<br>UK &<br>Group<br>Head<br>Office | Total     |
|                                                                                           | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million | India<br>\$million | Middle<br>East &<br>S Asia<br>\$million | Africa<br>\$million | \$million                                   | \$million |
| Internal income                                                                           | (14)                      | 3                      | (2)                   | 50                 | 17                                    | (17)               | (7)                                     | (10)                | (20)                                        | –         |
| Net interest income                                                                       | 1,115                     | 345                    | 242                   | 1,097              | 788                                   | 445                | 660                                     | 396                 | 240                                         | 5,328     |
| Fees and commissions income, net                                                          | 406                       | 159                    | 50                    | 152                | 302                                   | 204                | 296                                     | 160                 | 152                                         | 1,881     |
| Net trading income                                                                        | 74                        | 56                     | 60                    | 64                 | 166                                   | 101                | 115                                     | 91                  | 193                                         | 920       |
| Other operating income                                                                    | 34                        | 59                     | 21                    | 159                | 111                                   | 84                 | 6                                       | 3                   | 14                                          | 491       |
| Operating income                                                                          | 1,615                     | 622                    | 371                   | 1,522              | 1,384                                 | 817                | 1,070                                   | 640                 | 579                                         | 8,620     |
| Operating expenses                                                                        | (720)                     | (294)                  | (164)                 | (972)              | (785)                                 | (375)              | (514)                                   | (413)               | (559)                                       | (4,796)   |
| Operating profit before impairment losses<br>and taxation                                 | 895                       | 328                    | 207                   | 550                | 599                                   | 442                | 556                                     | 227                 | 20                                          | 3,824     |
| Impairment (losses)/releases on loans<br>and advances and other credit risk<br>provisions | (7)                       | (39)                   | (29)                  | (96)               | (384)                                 | (39)               | (53)                                    | (26)                | 44                                          | (629)     |
| Other impairment                                                                          | –                         | –                      | –                     | –                  | (3)                                   | –                  | –                                       | (9)                 | (3)                                         | (15)      |
| Loss from associates                                                                      | –                         | –                      | –                     | –                  | (4)                                   | –                  | –                                       | –                   | 2                                           | (2)       |
| Profit before taxation                                                                    | 888                       | 289                    | 178                   | 454                | 208                                   | 403                | 503                                     | 192                 | 63                                          | 3,178     |
| Loans and advances to customers<br>– average                                              | 22,859                    | 12,976                 | 8,671                 | 38,986             | 12,261                                | 5,876              | 9,531                                   | 2,397               | 10,415                                      | 123,972   |
| Net interest margins (%)                                                                  | 2.3                       | 1.3                    | 2.1                   | 1.9                | 3.0                                   | 3.4                | 3.8                                     | 5.7                 | 0.3                                         | 2.5       |
| Loans and advances to customers<br>– period end                                           | 22,037                    | 14,626                 | 9,199                 | 40,029             | 22,872                                | 6,242              | 10,525                                  | 2,536               | 12,458                                      | 140,524   |
| Loans and advances to banks<br>– period end                                               | 6,474                     | 939                    | 161                   | 1,753              | 4,462                                 | 477                | 1,058                                   | 387                 | 5,353                                       | 21,064    |
| Total assets employed*                                                                    | 49,831                    | 25,393                 | 11,846                | 64,159             | 46,874                                | 14,382             | 18,112                                  | 7,792               | 65,904                                      | 304,293   |
| Total risk weighted assets and<br>contingents                                             | 23,784                    | 13,681                 | 5,315                 | 35,330             | 24,876                                | 8,450              | 13,572                                  | 3,287               | 28,282                                      | 156,577   |
| Capital expenditure                                                                       | 78                        | 65                     | 3                     | 35                 | 49                                    | 22                 | 37                                      | 13                  | 57                                          | 359       |

\* Total assets employed includes intra-group items of \$38,784 million and excludes deferred tax assets of \$538 million.

## 2. Segmental Information continued

|                                                                                           | 2005                      |                        |                       |                    |                                       |                    |                                                  |                     |                                                          |                    |
|-------------------------------------------------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|--------------------------------------------------|---------------------|----------------------------------------------------------|--------------------|
|                                                                                           | Asia Pacific              |                        |                       |                    |                                       | India<br>\$million | Middle<br>East &<br>Other<br>S Asia<br>\$million | Africa<br>\$million | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |
|                                                                                           | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million |                    |                                                  |                     |                                                          |                    |
| Internal income*                                                                          | 21                        | 7                      | 6                     | (1)                | 13                                    | (7)                | 5                                                | (14)                | (30)                                                     | –                  |
| Net interest income                                                                       | 935                       | 270                    | 214                   | 826                | 626                                   | 337                | 478                                              | 380                 | 269                                                      | 4,335              |
| Fees and commissions                                                                      |                           |                        |                       |                    |                                       |                    |                                                  |                     |                                                          |                    |
| Income, net                                                                               | 352                       | 139                    | 60                    | 45                 | 225                                   | 151                | 234                                              | 151                 | 138                                                      | 1,495              |
| Net trading income                                                                        | 101                       | 84                     | 44                    | 63                 | 165                                   | 72                 | 89                                               | 31                  | 120                                                      | 769                |
| Other operating income                                                                    | 75                        | 14                     | 11                    | 24                 | 28                                    | 40                 | 6                                                | 5                   | 59                                                       | 262                |
| Operating income                                                                          | 1,484                     | 514                    | 335                   | 957                | 1,057                                 | 593                | 812                                              | 553                 | 556                                                      | 6,861              |
| Operating expenses                                                                        | (649)                     | (246)                  | (150)                 | (632)              | (610)                                 | (306)              | (339)                                            | (399)               | (480)                                                    | (3,811)            |
| Operating profit before<br>impairment losses and taxation                                 | 835                       | 268                    | 185                   | 325                | 447                                   | 287                | 473                                              | 154                 | 76                                                       | 3,050              |
| Impairment (losses)/releases on loans<br>and advances and other credit risk<br>provisions | (117)                     | (43)                   | (30)                  | (61)               | (49)                                  | (50)               | 9                                                | (43)                | 65                                                       | (319)              |
| Other impairment                                                                          | (1)                       | –                      | –                     | –                  | –                                     | 1                  | –                                                | (47)                | (3)                                                      | (50)               |
| Profit before taxation                                                                    | 717                       | 225                    | 155                   | 264                | 398                                   | 238                | 482                                              | 64                  | 138                                                      | 2,681              |
| Loans and advances to<br>customers – average                                              | 22,148                    | 11,966                 | 6,521                 | 23,315             | 9,971                                 | 5,107              | 7,917                                            | 2,088               | 9,819                                                    | 98,852             |
| Net interest margin (%)                                                                   | 2.2                       | 1.1                    | 2.2                   | 2.0                | 3.0                                   | 3.3                | 3.2                                              | 7.3                 | 0.5                                                      | 2.5                |
| Loans and advances to customers<br>– period end                                           | 21,584                    | 12,541                 | 7,613                 | 36,037             | 11,210                                | 5,017              | 7,348                                            | 2,251               | 8,576                                                    | 112,177            |
| Loans and advances to banks<br>– period end                                               | 5,688                     | 2,431                  | 173                   | 3,222              | 2,213                                 | 238                | 1,255                                            | 313                 | 7,426                                                    | 22,959             |
| Total assets employed**                                                                   | 49,943                    | 23,602                 | 10,409                | 59,929             | 24,141                                | 10,943             | 12,902                                           | 5,606               | 37,083                                                   | 234,558            |
| Total risk weighted assets<br>and contingents                                             | 21,281                    | 11,770                 | 5,224                 | 31,850             | 15,140                                | 6,369              | 9,304                                            | 2,732               | 24,256                                                   | 127,926            |
| Capital expenditure                                                                       | 36                        | 43                     | 6                     | 42                 | 34                                    | 18                 | 11                                               | 13                  | 20                                                       | 223                |

\* Internal income by geographies has been restated as the Group has refined its methodology for charging and allocating expense for capital in 2006. The restatement has no effect on total income. See note 52.

\*\* Total assets employed includes intra-group items of \$19,960 million and excludes deferred tax assets of \$498 million.

## Notes to the Accounts continued

### 2. Segmental Information continued

Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. In the year in which an acquisition is made the Group does not charge or allocate the benefit of the Group's capital and the distribution of central expenses is phased in over two years, based on an estimate of central management costs associated with the acquisition.

In 2006, corporate items not allocated to businesses relate to costs associated with the buyback of subordinated debt in Korea, pre-incorporation costs in China and with the gain realised on the effective part disposal of the Standard Chartered Bank branches in Pakistan as set out in note 23. Other impairment includes

provisions made in respect of exposures in Zimbabwe. This was included in the geographic segmental information, but in 2005 was not fully allocated to businesses in the business segmental information.

Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Total risk weighted assets and contingents include \$3,134 million (2005: \$2,002 million) of balances which are netted in calculating capital ratios.

Capital expenditure comprises additions to property and equipment (note 25) and intangibles (note 24) including additions resulting from acquisitions.

### 3. Interest Income

|                                              | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------|-------------------|-------------------|
| Balances at central banks                    | 29                | 8                 |
| Treasury bills                               | 746               | 469               |
| Loans and advances to banks                  | 1,177             | 851               |
| Loans and advances to customers              | 8,997             | 6,104             |
| Listed debt securities                       | 855               | 525               |
| Unlisted debt securities                     | 1,131             | 745               |
| Accrued on impaired assets (discount unwind) | 52                | 48                |
|                                              | <b>12,987</b>     | <b>8,750</b>      |

Total interest income from financial instruments held at amortised cost in 2006 is \$8,738 million (2005: \$6,313 million) and from financial instruments held as available-for-sale is \$3,534 million (2005: \$1,925 million).

### 4. Interest Expense

|                                                     | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------|-------------------|-------------------|
| Deposits by banks                                   | 1,122             | 643               |
| Customer accounts:                                  |                   |                   |
| Current and demand accounts                         | 1,403             | 597               |
| Savings deposits                                    | 164               | 97                |
| Time deposits                                       | 3,141             | 1,852             |
| Debt securities in issue                            | 1,186             | 703               |
| Subordinated loan capital and other borrowed funds: |                   |                   |
| Wholly repayable within five years                  | 227               | 158               |
| Other                                               | 416               | 365               |
|                                                     | <b>7,659</b>      | <b>4,415</b>      |

Total interest expense on financial instruments held at amortised cost in 2006 is \$6,948 million (2005: \$4,262 million).

## 5. Net Trading Income

|                                         | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------|-------------------|-------------------|
| Gains less losses on foreign currency   | 645               | 613               |
| Gains less losses on trading securities | 109               | (19)              |
| Other trading profits                   | 166               | 175               |
|                                         | 920               | 769               |

## 6. Other Operating Income

|                                                                      | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------------------------------|-------------------|-------------------|
| Other operating income includes:                                     |                   |                   |
| Gains less losses on disposal of available-for-sale financial assets | 190               | 107               |
| Dividend income                                                      | 77                | 62                |
| Gains arising on assets fair valued at acquisition                   | 106               | –                 |
| Gain on effective part disposal of Pakistan branches                 | 17                | –                 |

## 7. Operating Expenses

|                                    | 2006<br>\$million | 2005<br>\$million |
|------------------------------------|-------------------|-------------------|
| Staff costs:                       |                   |                   |
| Wages and salaries                 | 2,278             | 1,653             |
| Social security costs              | 74                | 48                |
| Other pension costs (note 35)      | 166               | 131               |
| Other staff costs                  | 395               | 313               |
|                                    | 2,913             | 2,145             |
| Premises and equipment expenses:   |                   |                   |
| Rental of premises                 | 215               | 183               |
| Other premises and equipment costs | 208               | 167               |
| Rental of computers and equipment  | 21                | 13                |
|                                    | 444               | 363               |
| General administrative expenses    | 1,171             | 1,020             |

Wages and salaries include share based payments – see note 40.

The Group employed 59,205 staff at 31 December 2006 (2005: 43,899).

The Company employed nil staff at 31 December 2006 (2005: nil). It incurred costs of \$2 million (2005: \$3 million).

### Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 61 to 73.

Transactions with directors, officers and other related parties are disclosed in the related parties note 53 on page 140.

## Notes to the Accounts continued

### 7. Operating Expenses continued

#### Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to \$3.3 million (2005: \$3.1 million). The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together "KPMG"):

|                                                                       | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Audit fees for the Group statutory audit:                             |                   |                   |
| Fees relating to the current year                                     | 3.3               | 3.1               |
| Fees payable to KPMG for other services provided to the Group:        |                   |                   |
| Audit of Standard Chartered PLC subsidiaries, pursuant to legislation | 7.6               | 7.7               |
| Other services pursuant to legislation                                | 1.6               | 3.1               |
| Tax services                                                          | 1.0               | 0.8               |
| Services relating to information technology                           | 0.1               | 0.1               |
| Services relating to corporate finance transactions                   | 1.4               | 0.4               |
| All other services                                                    | 0.2               | 0.3               |
| <b>Total fees payable</b>                                             | <b>15.2</b>       | <b>15.5</b>       |

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. It excludes amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services relating to information technology include advice on IT security and business continuity, and performing agreed upon IT testing procedures.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice and review of financial models.
- Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees of \$0.2 million (2005: \$0.2 million) by parties other than the Group but where the Group are connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered PLC are not disclosed because such fees are disclosed on a consolidated basis for the Group.

### 8. Depreciation and Amortisation

|                                   | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------|-------------------|-------------------|
| Premises                          | 57                | 53                |
| Equipment                         | 78                | 73                |
| Intangibles:                      |                   |                   |
| Software                          | 81                | 125               |
| Acquired on business combinations | 52                | 32                |
|                                   | <b>268</b>        | <b>283</b>        |

### 9. Other Impairment

|          | 2006<br>\$million | 2005<br>\$million |
|----------|-------------------|-------------------|
| Goodwill | —                 | 2                 |
| Other    | 15                | 48                |
|          | <b>15</b>         | <b>50</b>         |

Other impairment mainly comprises provision for exposures in Zimbabwe.

## 10. Taxation

Analysis of taxation charge in the year:

|                                                                            | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------------------------------------|-------------------|-------------------|
| The charge for taxation based upon the profits for the year comprises:     |                   |                   |
| United Kingdom corporation tax at 30% (2005: 30%):                         |                   |                   |
| Current tax on income for the year                                         | 229               | 326               |
| Adjustments in respect of prior periods (including double taxation relief) | (244)             | 4                 |
| Double taxation relief                                                     | (208)             | (308)             |
| Foreign tax:                                                               |                   |                   |
| Current tax on income for the year                                         | 868               | 671               |
| Adjustments in respect of prior periods                                    | 33                | (18)              |
| Total current tax                                                          | 678               | 675               |
| Deferred tax:                                                              |                   |                   |
| Origination/reversal of temporary differences                              | 146               | 35                |
| Tax on profits on ordinary activities                                      | 824               | 710               |
| Effective tax rate                                                         | 25.9%             | 26.5%             |

Overseas taxation includes taxation on Hong Kong profits of \$166 million (2005: \$131 million) provided at a rate of 17.5 per cent (2005: 17.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 30 per cent.

The differences are explained below:

|                                                          | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------------------|-------------------|-------------------|
| Profit on ordinary activities before taxation            | 3,178             | 2,681             |
| Tax at 30% (2005: 30%)                                   | 953               | 804               |
| Effects of:                                              |                   |                   |
| Tax free income                                          | (52)              | (16)              |
| Effect of lower tax rates on overseas earnings           | (191)             | (111)             |
| One-off adjustments on Korea branch transfer             | –                 | (12)              |
| Effect of higher tax rates on overseas earnings          | 133               | –                 |
| Adjustments to tax charge in respect of previous periods | (75)              | (16)              |
| Other items                                              | 56                | 61                |
| Tax on profits on ordinary activities                    | 824               | 710               |

Tax recognised directly in equity:

|                                                                             | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------------------------------|-------------------|-------------------|
| Current tax credit on share based payments                                  | 18                | –                 |
| Current tax credit/(charge) on available-for-sale assets                    | 5                 | –                 |
| Current tax credit/(charge) on instruments reclassified from debt to equity | –                 | 20                |
| Total current tax recognised in equity                                      | 23                | 20                |
| Deferred tax credit/(charge) on available-for-sale assets                   | (70)              | 49                |
| Deferred tax credit/(charge) on pensions                                    | (38)              | 51                |
| Deferred tax credit/(charge) on share based payments                        | 29                | 86                |
| Deferred tax credit/(charge) on cash flow hedges                            | (25)              | –                 |
| Deferred tax on other items                                                 | 8                 | 29                |
| Total deferred tax recognised in equity                                     | (96)              | 215               |
| Total tax recognised in equity                                              | (73)              | 235               |

## Notes to the Accounts continued

### 11. Dividends

| Ordinary Equity Shares                                | 2006            |           | 2005            |           |
|-------------------------------------------------------|-----------------|-----------|-----------------|-----------|
|                                                       | Cents per share | \$million | Cents per share | \$million |
| Final dividend declared and paid during the period    | 45.06           | 595       | 40.44           | 524       |
| Interim dividends declared and paid during the period | 20.83           | 277       | 18.94           | 248       |
|                                                       | 65.89           | 872       | 59.38           | 772       |

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior years. The 2006 final dividend of 50.21 cents per share (\$695 million) will be paid in either sterling, Hong Kong dollars or US dollars on 11 May 2007 to shareholders on the UK register of members at the close of business in the UK on 9 March 2007, and to shareholders on the Hong Kong branch

register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 9 March 2007. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend will be sent to shareholders on or around 26 March 2007.

| Preference Shares                              |                                                                      |  | 2006<br>\$million | 2005<br>\$million |
|------------------------------------------------|----------------------------------------------------------------------|--|-------------------|-------------------|
| Non-cumulative irredeemable preference shares: | 7 <sup>3</sup> / <sub>8</sub> per cent preference shares of £1 each* |  | 14                | 14                |
|                                                | 8 <sup>1</sup> / <sub>4</sub> per cent preference shares of £1 each* |  | 15                | 15                |
| Non-cumulative redeemable preference shares:   | 8.9 per cent preference shares of \$5 each                           |  | 22                | 29                |
|                                                | 6.409 per cent preference shares of \$5 each                         |  | 3                 | –                 |

\* Dividends on these preference shares are treated as interest expense.

### 12. Earnings Per Ordinary Share

|                                               | 2006                 |                                                   |                                 | 2005                 |                                                   |                                 |
|-----------------------------------------------|----------------------|---------------------------------------------------|---------------------------------|----------------------|---------------------------------------------------|---------------------------------|
|                                               | Profit*<br>\$million | Weighted<br>average number<br>of shares<br>(‘000) | Per<br>share<br>amount<br>cents | Profit*<br>\$million | Weighted<br>average number<br>of shares<br>(‘000) | Per<br>share<br>amount<br>cents |
| Basic earnings per ordinary share             | 2,253                | 1,332,985                                         | 169.0                           | 1,917                | 1,290,916                                         | 148.5                           |
| Effect of dilutive potential ordinary shares: |                      |                                                   |                                 |                      |                                                   |                                 |
| Convertible bonds                             | –                    | –                                                 |                                 | 7                    | 10,346                                            |                                 |
| Options                                       | –                    | 16,050                                            |                                 | –                    | 8,678                                             |                                 |
| Diluted earnings per share                    | 2,253                | 1,349,035                                         | 167.0                           | 1,924                | 1,309,940                                         | 146.9                           |

#### Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33, Earnings per share. The table below provides a reconciliation.

|                                                                    | 2006<br>\$million | 2005<br>\$million |
|--------------------------------------------------------------------|-------------------|-------------------|
| Profit attributable to ordinary shareholders*                      | 2,253             | 1,917             |
| Premium and costs paid on repurchase of subordinated debt          | 4                 | –                 |
| Amortisation of intangible assets arising on business combinations | 52                | 32                |
| Profit on sale of property, plant and equipment                    | (16)              | –                 |
| Gain on transfer of branches                                       | (17)              | –                 |
| Pre-incorporation costs in China                                   | 4                 | –                 |
| Other impairment                                                   | –                 | 42                |
| Tax on normalised items                                            | (5)               | (7)               |
| Normalised earnings                                                | 2,275             | 1,984             |
| Normalised earnings per ordinary share                             | 170.7c            | 153.7c            |

\* The profit amounts represent the profit attributable to ordinary shareholders i.e. after the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 11).

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculations had they been issued prior to the end of the balance sheet period.

### 13. Financial Instruments Classification Summary

Financial instruments are classified between four recognition principles: held at fair value through profit or loss (comprising trading and designated), available-for-sale, held-to-maturity and loans and receivables. The face of the balance sheet combines financial instruments that are held at their fair value and

subdivided between those assets and liabilities held for trading purposes and those that the Group has elected to hold at fair value.

The Group's classification of its principal financial assets and liabilities (excluding derivatives) is summarised below:

|                                         | Trading<br>\$million | Designated<br>at fair value<br>through<br>profit or loss<br>\$million | Available-<br>for-sale<br>\$million | Loans and<br>receivables<br>\$million | Held to-<br>maturity<br>\$million | Total<br>\$million |
|-----------------------------------------|----------------------|-----------------------------------------------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|--------------------|
| Loans and advances to banks             | 1,340                | –                                                                     | –                                   | 19,724                                | –                                 | 21,064             |
| Loans and advances to customers         | 1,000                | 194                                                                   | –                                   | 139,330                               | –                                 | 140,524            |
| Treasury bills and other eligible bills | 2,722                | 696                                                                   | 12,522                              | –                                     | –                                 | 15,940             |
| Debt securities                         | 8,906                | 695                                                                   | 32,701                              | 2,649                                 | 137                               | 45,088             |
| Equity shares                           | 162                  | –                                                                     | 1,478                               | –                                     | –                                 | 1,640              |
| <b>Total assets at 31 December 2006</b> | <b>14,130</b>        | <b>1,585</b>                                                          | <b>46,701</b>                       | <b>161,703</b>                        | <b>137</b>                        | <b>224,256</b>     |

|                                         |              |            |               |                |            |                |
|-----------------------------------------|--------------|------------|---------------|----------------|------------|----------------|
| Loans and advances to banks             | 1,258        | –          | 30            | 21,671         | –          | 22,959         |
| Loans and advances to customers         | 230          | 156        | 105           | 111,686        | –          | 112,177        |
| Treasury bills and other eligible bills | 2,223        | 492        | 10,199        | –              | –          | 12,914         |
| Debt securities                         | 5,612        | 244        | 25,231        | 1,264          | 215        | 32,566         |
| Equity shares                           | 118          | –          | 954           | –              | –          | 1,072          |
| <b>Total assets at 31 December 2005</b> | <b>9,441</b> | <b>892</b> | <b>36,519</b> | <b>134,621</b> | <b>215</b> | <b>181,688</b> |

|                                              | Trading<br>\$million | Designated<br>at fair value<br>through<br>profit or loss<br>\$million | Amortised<br>cost<br>\$million | Total<br>\$million |
|----------------------------------------------|----------------------|-----------------------------------------------------------------------|--------------------------------|--------------------|
| Deposits by banks                            | 1,286                | 603                                                                   | 26,233                         | 28,122             |
| Customer accounts                            | 485                  | 1,421                                                                 | 147,382                        | 149,288            |
| Debt securities in issue                     | 1,514                | 1,771                                                                 | 23,514                         | 26,799             |
| Short positions                              | 2,889                | –                                                                     | –                              | 2,889              |
| <b>Total liabilities at 31 December 2006</b> | <b>6,174</b>         | <b>3,795</b>                                                          | <b>197,129</b>                 | <b>207,098</b>     |

|                                              |              |              |                |                |
|----------------------------------------------|--------------|--------------|----------------|----------------|
| Deposits by banks                            | 1,102        | 337          | 18,834         | 20,273         |
| Customer accounts                            | 394          | 614          | 119,931        | 120,939        |
| Debt securities in issue                     | 1,068        | 433          | 25,913         | 27,414         |
| Short positions                              | 2,345        | –            | –              | 2,345          |
| <b>Total liabilities at 31 December 2005</b> | <b>4,909</b> | <b>1,384</b> | <b>164,678</b> | <b>170,971</b> |

## Notes to the Accounts continued

### 14. Financial Assets Held at Fair Value through Profit or Loss

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. Derivatives are recorded at fair value whereas loans and advances are usually recorded at amortised cost. To significantly reduce the accounting mismatch between fair value and amortised cost, these loans and advances and debt securities have been designated at fair value through profit or loss. The Group ensures the criteria under IFRS are met by matching the principal terms of interest rate swaps to the corresponding loan and debt security.

The changes in fair value of both the underlying loans and advances and debt securities and interest rate swaps are monitored in a similar manner to trading book portfolios.

The fair value loss on assets designated at fair value through profit or loss was \$4.7 million (2005: \$8 million). Of this, \$0.4 million (2005: \$nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$0.4 million (2005: \$nil million).

|                                         | 2006                 |                                                                       |                    | 2005                 |                                                                    |                    |
|-----------------------------------------|----------------------|-----------------------------------------------------------------------|--------------------|----------------------|--------------------------------------------------------------------|--------------------|
|                                         | Trading<br>\$million | Designated at<br>fair value<br>through<br>profit or loss<br>\$million | Total<br>\$million | Trading<br>\$million | Designated at fair<br>value through<br>profit or loss<br>\$million | Total<br>\$million |
| Loans and advances to banks             | 1,340                | –                                                                     | 1,340              | 1,258                | –                                                                  | 1,258              |
| Loans and advances to customers         | 1,000                | 194                                                                   | 1,194              | 230                  | 156                                                                | 386                |
| Treasury bills and other eligible bills | 2,722                | 696                                                                   | 3,418              | 2,223                | 492                                                                | 2,715              |
| Debt securities                         | 8,906                | 695                                                                   | 9,601              | 5,612                | 244                                                                | 5,856              |
| Equity shares                           | 162                  | –                                                                     | 162                | 118                  | –                                                                  | 118                |
|                                         | 14,130               | 1,585                                                                 | 15,715             | 9,441                | 892                                                                | 10,333             |

#### Debt securities

|                                                 | 2006<br>\$million | 2005<br>\$million |
|-------------------------------------------------|-------------------|-------------------|
| Issued by public bodies:                        |                   |                   |
| Government securities                           | 2,321             | 1,632             |
| Other public sector securities                  | 45                | –                 |
|                                                 | 2,366             | 1,632             |
| Issued by banks:                                |                   |                   |
| Certificates of deposit                         | 405               | 811               |
| Other debt securities                           | 2,082             | 1,028             |
|                                                 | 2,487             | 1,839             |
| Issued by corporate entities and other issuers: |                   |                   |
| Other debt securities                           | 4,748             | 2,385             |
| Total debt securities                           | 9,601             | 5,856             |
| Of which:                                       |                   |                   |
| Listed on a recognised UK exchange              | 418               | 537               |
| Listed elsewhere                                | 2,819             | 1,526             |
| Unlisted                                        | 6,364             | 3,793             |
|                                                 | 9,601             | 5,856             |

#### Equity shares

|                     |     |     |
|---------------------|-----|-----|
| Listed elsewhere    | 36  | –   |
| Unlisted            | 126 | 118 |
| Total equity shares | 162 | 118 |

## 15. Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow hedging has been achieved, in which case changes in fair value go through reserves).

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

In respect of credit risk arising from the use of derivatives, the Group sets limits on net open positions. The amount of credit risk is the current positive fair value (asset) of the underlying contract. The credit risk is managed as part of the overall lending limits to banks and customers, together with potential exposures from market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as transactions are not usually settled on a net basis.

The Derivatives and Hedging section of the Risk Review on page 47 explains the Group's risk management of derivative contracts.

|                                               | 2006                                 |                  |                       | 2005                                 |                  |                       |
|-----------------------------------------------|--------------------------------------|------------------|-----------------------|--------------------------------------|------------------|-----------------------|
|                                               | Notional principal amounts \$million | Assets \$million | Liabilities \$million | Notional principal amounts \$million | Assets \$million | Liabilities \$million |
| <b>Total derivatives</b>                      |                                      |                  |                       |                                      |                  |                       |
| <b>Foreign exchange derivative contracts:</b> |                                      |                  |                       |                                      |                  |                       |
| Forward foreign exchange contracts            | 434,569                              | 3,805            | 4,165                 | 326,053                              | 5,392            | 5,884                 |
| Currency swaps and options                    | 295,845                              | 4,698            | 4,793                 | 175,121                              | 351              | 487                   |
|                                               | 730,414                              | 8,503            | 8,958                 | 501,174                              | 5,743            | 6,371                 |
| <b>Interest rate derivative contracts:</b>    |                                      |                  |                       |                                      |                  |                       |
| Swaps                                         | 653,283                              | 4,353            | 4,348                 | 471,652                              | 3,452            | 3,239                 |
| Forward rate agreements and options           | 94,244                               | 138              | 195                   | 68,015                               | 72               | 160                   |
| Exchange traded futures and options           | 260,182                              | 42               | 47                    | 117,026                              | 43               | 27                    |
|                                               | 1,007,709                            | 4,533            | 4,590                 | 656,693                              | 3,567            | 3,426                 |
| <b>Credit derivative contracts</b>            | 22,195                               | 49               | 70                    | 9,374                                | 45               | 52                    |
| <b>Equity and stock index options</b>         | 699                                  | 18               | 44                    | 379                                  | 3                | 3                     |
| <b>Commodity derivative contracts</b>         | 2,469                                | 51               | 41                    | 4,642                                | 12               | 12                    |
| <b>Total derivatives</b>                      | 1,763,486                            | 13,154           | 13,703                | 1,172,262                            | 9,370            | 9,864                 |
| <b>Effect of netting</b>                      |                                      | (6,425)          |                       |                                      | (4,859)*         |                       |
| <b>Net credit risk on derivatives</b>         |                                      | 6,729            |                       |                                      | 4,511            |                       |

\* Restated to present on a consistent basis.

## Notes to the Accounts continued

### 15. Derivative Financial Instruments continued

The Group uses derivatives primarily to mitigate interest rate and foreign exchange risk. Hedge accounting is applied to derivatives and hedged items when the criteria under IFRS have been met. The table below lists the types of derivatives that have achieved hedge accounting with the following two categories:

#### Fair value hedges

The Group uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rates on funding to match floating rates received on assets, or exchanges fixed rates on assets to match the floating rates paid on funding. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss.

#### Cash flow hedges

The Group uses swaps to manage the variability in future interest cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies. Gains and losses arising on the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss. These cash flows are expected to occur over the next three years.

|                                                    | 2006                                 |                  |                       | 2005                                 |                  |                       |
|----------------------------------------------------|--------------------------------------|------------------|-----------------------|--------------------------------------|------------------|-----------------------|
|                                                    | Notional principal amounts \$million | Assets \$million | Liabilities \$million | Notional principal amounts \$million | Assets \$million | Liabilities \$million |
| <b>Derivatives held for hedging</b>                |                                      |                  |                       |                                      |                  |                       |
| <b>Derivatives designated as fair value hedges</b> |                                      |                  |                       |                                      |                  |                       |
| Swaps                                              | 10,570                               | 589              | 464                   | 6,123                                | 368              | 143                   |
|                                                    | 10,570                               | 589              | 464                   | 6,123                                | 368              | 143                   |
| <b>Derivatives designated as cash flow hedges</b>  |                                      |                  |                       |                                      |                  |                       |
| Swaps                                              | 5,596                                | 17               | 21                    | 3,581                                | –                | 24                    |
| Forward foreign exchange contracts                 | 921                                  | 61               | 2                     | 802                                  | 4                | 23                    |
|                                                    | 6,517                                | 78               | 23                    | 4,383                                | 4                | 47                    |
| <b>Total derivatives held for hedging</b>          | <b>17,087</b>                        | <b>667</b>       | <b>487</b>            | <b>10,506</b>                        | <b>372</b>       | <b>190</b>            |

## 16. Loans and Advances to Banks

|                                                                                  | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------------------------------------------|-------------------|-------------------|
| Loans and advances to banks                                                      | 21,074            | 22,982            |
| Individual impairment provision (note 19)                                        | (9)               | (22)              |
| Portfolio impairment provision (note 19)                                         | (1)               | (1)               |
|                                                                                  | 21,064            | 22,959            |
| Of which: loans and advances held at fair value through profit or loss (note 14) | (1,340)           | (1,258)           |
|                                                                                  | 19,724            | 21,701            |

## 17. Loans and Advances to Customers

|                                                                                  | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------------------------------------------|-------------------|-------------------|
| Loans and advances to customers                                                  | 142,702           | 113,908           |
| Individual impairment provision (note 19)                                        | (1,569)           | (1,364)           |
| Portfolio impairment provision (note 19)                                         | (609)             | (367)             |
|                                                                                  | 140,524           | 112,177           |
| Of which: loans and advances held at fair value through profit or loss (note 14) | (1,194)           | (386)             |
|                                                                                  | 139,330           | 111,791           |

The Group has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of \$3,935 million (2005: \$65 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of \$3,519 million (2005: \$65 million) arising from the securitisations.

During 2006 the Group has entered into collateralised loan obligations over \$5.6 billion of loans and advances to customers (2005: \$2 billion). The assets remain on the Group's balance

sheet and the Group continues to be exposed to the related risks on these assets. The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore and the Other Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Korea residents of \$24.0 billion (2005: \$22.5 billion) and Hong Kong residents of approximately \$11.2 billion (2005: \$12.1 billion).

The following tables show loans and advances to customers by each principal category of borrower's business or industry:

|                                            | 2006                             |                                   |                                 | Total<br>\$million |
|--------------------------------------------|----------------------------------|-----------------------------------|---------------------------------|--------------------|
|                                            | One year<br>or less<br>\$million | One to five<br>years<br>\$million | Over<br>five years<br>\$million |                    |
| Loans to individuals                       |                                  |                                   |                                 |                    |
| Mortgages                                  | 4,817                            | 10,376                            | 34,559                          | 49,752             |
| Other                                      | 8,787                            | 6,506                             | 2,114                           | 17,407             |
| Small and medium enterprises               | 6,592                            | 3,242                             | 2,483                           | 12,317             |
| Consumer Banking                           | 20,196                           | 20,124                            | 39,156                          | 79,476             |
| Agriculture, forestry and fishing          | 637                              | 63                                | 93                              | 793                |
| Construction                               | 943                              | 115                               | 14                              | 1,072              |
| Commerce                                   | 8,972                            | 549                               | 46                              | 9,567              |
| Electricity, gas and water                 | 760                              | 331                               | 610                             | 1,701              |
| Financing, insurance and business services | 9,255                            | 2,063                             | 669                             | 11,987             |
| Governments                                | 6,759                            | 117                               | 121                             | 6,997              |
| Mining and quarrying                       | 1,836                            | 231                               | 428                             | 2,495              |
| Manufacturing                              | 13,844                           | 2,337                             | 1,807                           | 17,988             |
| Commercial real estate                     | 1,974                            | 1,308                             | 14                              | 3,296              |
| Transport, storage and communication       | 2,016                            | 1,259                             | 850                             | 4,125              |
| Other                                      | 1,069                            | 274                               | 293                             | 1,636              |
| Wholesale Banking                          | 48,065                           | 8,647                             | 4,945                           | 61,657             |
| Portfolio impairment provision             |                                  |                                   |                                 | (609)              |
|                                            |                                  |                                   |                                 | 140,524            |

## Notes to the Accounts continued

### 17. Loans and Advances to Customers continued

|                                            | 2005                             |                                   |                                 |                    |
|--------------------------------------------|----------------------------------|-----------------------------------|---------------------------------|--------------------|
|                                            | One year<br>or less<br>\$million | One to five<br>years<br>\$million | Over<br>five years<br>\$million | Total<br>\$million |
| Loans to individuals                       |                                  |                                   |                                 |                    |
| Mortgages                                  | 4,756                            | 9,598                             | 29,717                          | 44,071             |
| Other                                      | 8,352                            | 4,666                             | 1,572                           | 14,590             |
| Small and medium enterprises               | 5,883                            | 1,687                             | 1,921                           | 9,491              |
| Consumer Banking                           | 18,991                           | 15,951                            | 33,210                          | 68,152             |
| Agriculture, forestry and fishing          | 546                              | 81                                | 19                              | 646                |
| Construction                               | 602                              | 99                                | 12                              | 713                |
| Commerce                                   | 6,518                            | 481                               | 78                              | 7,077              |
| Electricity, gas and water                 | 684                              | 198                               | 680                             | 1,562              |
| Financing, insurance and business services | 6,552                            | 1,706                             | 628                             | 8,886              |
| Governments                                | 4,507                            | 197                               | 170                             | 4,874              |
| Mining and quarrying                       | 699                              | 216                               | 213                             | 1,128              |
| Manufacturing                              | 8,477                            | 2,068                             | 798                             | 11,343             |
| Commercial real estate                     | 2,433                            | 974                               | 73                              | 3,480              |
| Transport, storage and communication       | 1,544                            | 872                               | 974                             | 3,390              |
| Other                                      | 888                              | 354                               | 51                              | 1,293              |
| Wholesale Banking                          | 33,450                           | 7,246                             | 3,696                           | 44,392             |
| Portfolio impairment provision             |                                  |                                   |                                 | (367)              |
|                                            |                                  |                                   |                                 | 112,177            |

### 18. Asset Leased to Customers

|                              | 2006<br>\$million | 2005<br>\$million |
|------------------------------|-------------------|-------------------|
| Finance leases               | 639               | 298               |
| Instalment credit agreements | 1,019             | 851               |
|                              | 1,658             | 1,149             |

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$720 million (2005: \$201 million).

|                                                             | 2006<br>\$million | 2005<br>\$million |
|-------------------------------------------------------------|-------------------|-------------------|
| Minimum lease receivables under finance leases falling due: |                   |                   |
| Within one year                                             | 88                | 73                |
| Later than one year and less than five years                | 496               | 266               |
| After five years                                            | 157               | 23                |
|                                                             | 741               | 362               |
| Interest income relating to future periods                  | (102)             | (64)              |
| Present value of finance lease receivables                  | 639               | 298               |

## 19. Impairment Provisions on Loans and Advances

|                                                           | 2006<br>Total<br>\$million | 2005<br>Total<br>\$million |
|-----------------------------------------------------------|----------------------------|----------------------------|
| At 1 January                                              | 1,754                      | 1,782                      |
| Exchange translation differences                          | 74                         | (25)                       |
| Acquisitions                                              | 706                        | 407                        |
| Amounts written off/recoveries on acquisition fair values | (1,068)                    | (871)                      |
| Recoveries of amounts previously written off              | 128                        | 153                        |
| Discount unwind                                           | (52)                       | (48)                       |
| Other                                                     | 12                         | 24                         |
| New provisions                                            | 1,131                      | 915                        |
| Recoveries/provisions no longer required                  | (497)                      | (583)                      |
| Net charge against profit*                                | 634                        | 332                        |
| Provisions held at 31 December**                          | 2,188                      | 1,754                      |

\* The net charge of \$634 million (2005: \$332 million) comprises \$604 million (2005: \$255 million) individual impairment charge and \$30 million (2005: \$77 million) portfolio impairment charge. It excludes provision releases of \$11 million (2005: \$13 million) for credit commitments and other provisions (note 34) and impairment charges of \$6 million (2005: \$nil million) relating to debt securities designated as loans and receivables (note 21).

\*\* The provision of \$2,188 million held at 31 December 2006 (2005: \$1,754 million) comprises \$1,578 million (2005: \$1,386 million) individual impairment provision and \$610 million (2005: \$368 million) portfolio impairment provision.

The following table shows specific provisions by each principal category of borrowers' business or industry:

|                                                                                   | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------------------------------------|-------------------|-------------------|
| Loans to individuals                                                              |                   |                   |
| Mortgages                                                                         | 132               | 107               |
| Other                                                                             | 226               | 70                |
| Small and medium enterprises                                                      | 486               | 351               |
| Consumer Banking                                                                  | 844               | 528               |
| Agriculture, forestry and fishing                                                 | 23                | 32                |
| Construction                                                                      | 4                 | 24                |
| Commerce                                                                          | 169               | 129               |
| Electricity, gas and water                                                        | 6                 | 16                |
| Financing, insurance and business services                                        | 20                | 105               |
| Mining and quarrying                                                              | 36                | 26                |
| Manufacturing                                                                     | 411               | 355               |
| Commercial real estate                                                            | 12                | 16                |
| Transport, storage and communication                                              | 31                | 53                |
| Other                                                                             | 13                | 80                |
| Wholesale Banking                                                                 | 725               | 836               |
| Individual impairment provision against loans and advances to customers (note 17) | 1,569             | 1,364             |
| Individual impairment provision against loans and advances to banks (note 16)     | 9                 | 22                |
| Portfolio impairment provision (note 16, 17)                                      | 610               | 368               |
| Total impairment provisions on loans and advances                                 | 2,188             | 1,754             |

## Notes to the Accounts continued

### 20. Non-Performing Loans and Advances

|                                   | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------|-------------------|-------------------|
| Non-performing loans and advances | 2,779             | 2,694             |
| Impairment provisions             | (2,188)           | (1,754)           |
|                                   | 591               | 940               |

Net non-performing loans and advances comprises loans and advances to banks \$9 million (2005: \$24 million) and loans and advances to customers \$582 million (2005: \$916 million).

Impairment provisions cover 79 per cent of non-performing lending to customers (2005: 65 per cent).

Impairment provisions for 2006 include \$610 million (2005: \$368 million) of portfolio impairment provision.

### 21. Investment Securities

|                                   | Held-to-maturity<br>\$million | Available-for-sale<br>\$million | Loans and receivables<br>\$million | Total<br>\$million |
|-----------------------------------|-------------------------------|---------------------------------|------------------------------------|--------------------|
| Treasury and other eligible bills | –                             | 12,522                          | –                                  | 12,522             |
| Debt securities                   | 137                           | 32,701                          | 2,649                              | 35,487             |
| Equity shares                     | –                             | 1,478                           | –                                  | 1,478              |
| At 31 December 2006               | 137                           | 46,701                          | 2,649                              | 49,487             |
| Treasury and other eligible bills | –                             | 10,199                          | –                                  | 10,199             |
| Debt securities                   | 215                           | 25,231                          | 1,264                              | 26,710             |
| Equity shares                     | –                             | 954                             | –                                  | 954                |
| At 31 December 2005               | 215                           | 36,384                          | 1,264                              | 37,863             |

|                                                 | 2006                          |                                 |                                    | Equity shares<br>\$million | Treasury bills<br>\$million | Total<br>\$million |
|-------------------------------------------------|-------------------------------|---------------------------------|------------------------------------|----------------------------|-----------------------------|--------------------|
|                                                 | Held-to-maturity<br>\$million | Available-for-sale<br>\$million | Loans and receivables<br>\$million |                            |                             |                    |
| Issued by public bodies:                        |                               |                                 |                                    |                            |                             |                    |
| Government securities                           | 137                           | 10,379                          | –                                  |                            |                             |                    |
| Other public sector securities                  | –                             | 1,403                           | –                                  |                            |                             |                    |
|                                                 | 137                           | 11,782                          | –                                  |                            |                             |                    |
| Issued by banks:                                |                               |                                 |                                    |                            |                             |                    |
| Certificates of deposit                         | –                             | 8,433                           | 2,280                              |                            |                             |                    |
| Other debt securities                           | –                             | 9,505                           | 178                                |                            |                             |                    |
|                                                 | –                             | 17,938                          | 2,458                              |                            |                             |                    |
| Issued by corporate entities and other issuers: |                               |                                 |                                    |                            |                             |                    |
| Other debt securities                           | –                             | 2,981                           | 191                                |                            |                             |                    |
| Total debt securities                           | 137                           | 32,701                          | 2,649                              |                            |                             |                    |
| Listed on a recognised UK exchange              | –                             | 6,679                           | –                                  | 38                         | –                           | 6,717              |
| Listed elsewhere                                | 113                           | 10,183                          | 132                                | 795                        | 7,027                       | 18,250             |
| Unlisted                                        | 24                            | 15,839                          | 2,517                              | 645                        | 5,495                       | 24,520             |
|                                                 | 137                           | 32,701                          | 2,649                              | 1,478                      | 12,522                      | 49,487             |
| Market value of listed securities               | 109                           | 16,862                          | 130                                | 833                        | 7,027                       | 24,961             |

Equity shares largely comprises investments in corporates.

## 21. Investment Securities continued

|                                                 | 2005                          |                                 |                                    |               |                |           |
|-------------------------------------------------|-------------------------------|---------------------------------|------------------------------------|---------------|----------------|-----------|
|                                                 | Debt Securities               |                                 |                                    | Equity shares | Treasury bills | Total     |
|                                                 | Held-to-maturity<br>\$million | Available-for-sale<br>\$million | Loans and receivables<br>\$million | \$million     | \$million      | \$million |
| Issued by public bodies:                        |                               |                                 |                                    |               |                |           |
| Government securities                           | 215                           | 8,618                           | –                                  |               |                |           |
| Other public sector securities                  | –                             | 1,418                           | –                                  |               |                |           |
|                                                 | 215                           | 10,036                          | –                                  |               |                |           |
| Issued by banks:                                |                               |                                 |                                    |               |                |           |
| Certificates of deposit                         | –                             | 6,330                           | –                                  |               |                |           |
| Other debt securities                           | –                             | 5,973                           | –                                  |               |                |           |
|                                                 | –                             | 12,303                          | –                                  |               |                |           |
| Issued by corporate entities and other issuers: |                               |                                 |                                    |               |                |           |
| Other debt securities                           | –                             | 2,892                           | 1,264                              |               |                |           |
|                                                 | –                             | 2,892                           | 1,264                              |               |                |           |
| <b>Total debt securities</b>                    | <b>215</b>                    | <b>25,231</b>                   | <b>1,264</b>                       |               |                |           |
| Listed on a recognised UK exchange              | –                             | 5,944                           | –                                  | 23            | –              | 5,967     |
| Listed elsewhere                                | 3                             | 6,776                           | –                                  | 235           | 7,005          | 14,019    |
| Unlisted                                        | 212                           | 12,511                          | 1,264                              | 696           | 3,194          | 17,877    |
|                                                 | 215                           | 25,231                          | 1,264                              | 954           | 10,199         | 37,863    |
| Market value of listed securities               | 3                             | 12,720                          | –                                  | 258           | 7,005          | 19,986    |

The change in the carrying book amount of investment securities comprised:

|                                        | 2006                         |                            |                             |                    | 2005                         |                            |                             |                    |
|----------------------------------------|------------------------------|----------------------------|-----------------------------|--------------------|------------------------------|----------------------------|-----------------------------|--------------------|
|                                        | Debt securities<br>\$million | Equity shares<br>\$million | Treasury bills<br>\$million | Total<br>\$million | Debt securities<br>\$million | Equity shares<br>\$million | Treasury bills<br>\$million | Total<br>\$million |
| At 1 January                           | 26,710                       | 954                        | 10,199                      | 37,863             | 27,598                       | 292                        | 3,938                       | 31,828             |
| Exchange translation differences       | 949                          | 9                          | 528                         | 1,486              | (1,026)                      | 1                          | (154)                       | (1,179)            |
| Acquisitions                           | 1,145                        | 21                         | 842                         | 2,008              | 2,327                        | 289                        | 5,622                       | 8,238              |
| Additions                              | 47,411                       | 328                        | 23,376                      | 71,115             | 33,655                       | 658                        | 13,443                      | 47,756             |
| Transfers                              | –                            | –                          | –                           | –                  | 35                           | (35)                       | –                           | –                  |
| Maturities and disposals               | (40,909)                     | (337)                      | (22,650)                    | (63,896)           | (35,748)                     | (351)                      | (12,599)                    | (48,698)           |
| Provisions                             | (6)                          | (4)                        | (16)                        | (26)               | 1                            | (1)                        | (33)                        | (33)               |
| Changes in fair value                  | 142                          | 510                        | 28                          | 680                | (107)                        | 104                        | (29)                        | (32)               |
| Amortisation of discounts and premiums | 45                           | (3)                        | 215                         | 257                | (25)                         | (3)                        | 11                          | (17)               |
| <b>At 31 December</b>                  | <b>35,487</b>                | <b>1,478</b>               | <b>12,522</b>               | <b>49,487</b>      | <b>26,710</b>                | <b>954</b>                 | <b>10,199</b>               | <b>37,863</b>      |

Treasury bills and other eligible bills include \$393 million (2005: \$2,347 million) of bills sold subject to sale and repurchase transactions.

Debt securities include \$896 million (2005: \$811 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2006, unamortised premiums on debt securities held for investment purposes amounted to \$39 million (2005:

\$59 million) and unamortised discounts amounted to \$112 million (2005: \$41 million).

Income from listed equity shares amounted to \$4 million (2005: \$32 million) and income from unlisted equity shares amounted to \$73 million (2005: \$30 million).

## Notes to the Accounts continued

### 22. Investments in Subsidiary Undertakings, Joint Ventures and Associates

|                       | 2006<br>\$million | 2005<br>\$million |
|-----------------------|-------------------|-------------------|
| At 1 January 2006     | 7,973             | 4,292             |
| Additions             | 2,683             | 3,681             |
| Redemption of capital | (1,000)           | –                 |
| At 31 December 2006   | 9,656             | 7,973             |

At 31 December 2006, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

| Country and place of incorporation or registration                  | Main areas of operation                                                                              | Group interest in<br>ordinary share<br>capital |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|------------------------------------------------|
| Standard Chartered Bank, England and Wales                          | United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa | 100%                                           |
| Standard Chartered First Bank Korea Limited, Korea                  | Korea                                                                                                | 100%                                           |
| Standard Chartered Bank Malaysia Berhad, Malaysia                   | Malaysia                                                                                             | 100%                                           |
| Standard Chartered Bank (Pakistan) Limited, Pakistan                | Pakistan                                                                                             | 99.0%                                          |
| Hsinchu International Bank, Taiwan                                  | Taiwan                                                                                               | 96.2%                                          |
| Standard Chartered Bank (Hong Kong) Limited, Hong Kong              | Hong Kong                                                                                            | 100%                                           |
| Standard Chartered Bank (Thai) Public Company Limited, Thailand*    | Thailand                                                                                             | 99.97%                                         |
| Standard Chartered Capital Management (Jersey) LLC, United States   | United States                                                                                        | 100%                                           |
| Standard Chartered Receivables (UK) Limited, England and Wales      | United Kingdom                                                                                       | 100%                                           |
| Standard Chartered Financial Investments Limited, England and Wales | United Kingdom                                                                                       | 100%                                           |
| Standard Chartered Debt Trading Limited, England and Wales          | Hong Kong                                                                                            | 100%                                           |

\* Formerly Standard Chartered Nakornthon Bank Public Company Limited.

Details of all Group companies will be filed with the next annual return of the Company.

#### Joint venture

The Group has an interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk ("Permata"), in Indonesia. The Group proportionately consolidates its share of the assets, liabilities, income and expense of Permata line by line. On 5 September 2006, the Group acquired an additional 12.96 per cent for a consideration of \$98 million, increasing its share to 44.51 per cent (2005: 31.55 per cent) and generating goodwill of \$57 million. Contingent liabilities set out in note 44, include \$24 million (2005: \$11 million) relating to this joint venture

arrangement. These mainly comprise banking guarantees and irrevocable letters of credit.

There are no capital commitments related to the Group's investment in Permata.

Related party transactions are disclosed in note 53.

The following amounts have been included in the consolidated accounts of the Group:

|                                             | 2006<br>\$million | 2005<br>\$million |
|---------------------------------------------|-------------------|-------------------|
| Total assets                                | 2,021             | 1,231             |
| Total liabilities                           | (1,661)           | (1,032)           |
|                                             | 360               | 199               |
| Income                                      | 100               | 69                |
| Expenses                                    | (73)              | (62)              |
| Impairment                                  | (17)              | 2                 |
| Operating profit                            | 10                | 9                 |
| Tax                                         | (2)               | (2)               |
| Share of post tax result from joint venture | 8                 | 7                 |

## 22. Investments in Subsidiary Undertakings, Joint Ventures and Associates continued

### Interests in associates

|                   | 2006<br>\$million | 2005<br>\$million |
|-------------------|-------------------|-------------------|
| At 1 January      | 128               | –                 |
| Additions         | 90                | 128               |
| At 31 December    | 218               | 128               |
| Loss for the year | 2                 | –                 |
| Total assets      | 355               | 128               |
| Total liabilities | 216               | –                 |
|                   | 139               | 128               |

On 15 August 2005, the Group contributed \$128 million to the establishment of China Bohai Bank. The Group's investment is less than 20 per cent but is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating policies. Bohai commenced operation in 2006 and as such there was no share of income and expenses for 2005.

In January 2006, the Group issued 3,401,290 ordinary shares to acquire 20 per cent of Fleming Family & Partners Limited for \$82 million.

In October 2006 the Group acquired 25 per cent of First Africa Holdings Limited at a cost of \$5.4 million.

The reporting dates of these associates are within three months of the Group's reporting date.

## 23. Business Combinations

### 2006 acquisitions

On 5 September 2006, the Group acquired 95.4 per cent of the share capital of Union Bank Limited ("Union"), a large banking group in Pakistan. The acquired business contributed operating

income of \$51 million and profit before tax of \$7 million to the Group for the period from 6 September 2006 to 30 December 2006.

\$million

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

|                                            |     |
|--------------------------------------------|-----|
| – cash paid                                | 487 |
| – direct costs relating to the acquisition | 2   |
| Total purchase consideration               | 489 |
| Fair value of net assets acquired          | 83  |
| Goodwill                                   | 406 |

On 30 December 2006, the business and assets of the Standard Chartered Bank branches in Pakistan were transferred into a new entity, Standard Chartered (Pakistan) Limited, the acquiring entity of Union. A share swap was effected for the minority shareholders of Union to swap their Union holdings into those of Standard Chartered (Pakistan) Limited, following which the Group's

shareholding increased to 99.0 per cent. Additional goodwill of \$17 million was generated as a result of this share swap.

The goodwill is attributable to the significant synergies expected to arise from the development of Union within the Standard Chartered Group and to those intangibles, such as the branch network, which are not recognised separately.

## Notes to the Accounts continued

### 23. Business Combinations continued

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

|                                                   | Fair value<br>\$million | Acquiree's<br>carrying<br>amount<br>\$million |
|---------------------------------------------------|-------------------------|-----------------------------------------------|
| Cash and balances at central banks*               | 148                     | 148                                           |
| Loans and advances to banks                       | 104                     | 104                                           |
| Loans and advances to customers                   | 1,128                   | 1,206                                         |
| Investment securities                             | 404                     | 411                                           |
| Intangibles other than goodwill                   | 55                      | 3                                             |
| Property, plant and equipment                     | 45                      | 28                                            |
| Deferred tax assets                               | 40                      | 1                                             |
| Other assets                                      | 48                      | 61                                            |
| <b>Total assets</b>                               | <b>1,972</b>            | <b>1,962</b>                                  |
| Deposits by banks                                 | 425                     | 425                                           |
| Customer accounts                                 | 1,320                   | 1,309                                         |
| Other liabilities                                 | 97                      | 96                                            |
| Subordinated liabilities and other borrowed funds | 40                      | 41                                            |
| <b>Total liabilities</b>                          | <b>1,882</b>            | <b>1,871</b>                                  |
| Minority interest                                 | 7                       | 7                                             |
| <b>Net assets acquired</b>                        | <b>83</b>               | <b>84</b>                                     |
| Purchase consideration settled in cash            | 489                     |                                               |
| Cash and cash equivalents in subsidiary acquired  | (164)                   |                                               |
| <b>Cash outflow on acquisition</b>                | <b>325</b>              |                                               |

\* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

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

|                        | \$million |
|------------------------|-----------|
| Brand names            | 6         |
| Customer relationships | 13        |
| Core deposits          | 33        |
| Capitalised software   | 3         |
| <b>Total</b>           | <b>55</b> |

### 23. Business Combinations continued

On 29 September 2006, the Group launched a tender offer for Hsinchu International Bank ("Hsinchu") a banking group in Taiwan and through this acquired 95.4 per cent of the share capital. The effective date of the acquisition, being the date the Group acquired a controlling interest, was 19 October 2006. Subsequent to this, the Group acquired a further 0.8 per cent

through share purchase to take its overall share to 96.2 per cent at 31 December 2006. The acquired business contributed operating income of \$80 million and profit before tax of \$27 million to the Group for the period from 19 October 2006 to 31 December 2006.

\$million

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

|                                            |       |
|--------------------------------------------|-------|
| – cash paid through tender                 | 1,176 |
| – cash paid for subsequent purchases       | 15    |
| – direct costs relating to the acquisition | 10    |
| Total purchase consideration               | 1,201 |
| Fair value of net assets acquired          | 253   |
| Goodwill                                   | 948   |

The goodwill is attributable to the significant synergies expected to arise from the development of Hsinchu within the Standard Chartered Group and those intangibles such as its extensive branch network and the workforce in place, with Mandarin speaking capabilities, which are not recognised separately.

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

|                                                            | Fair value<br>\$million | Acquiree's<br>carrying<br>amount<br>\$million |
|------------------------------------------------------------|-------------------------|-----------------------------------------------|
| Cash and balances at central banks*                        | 481                     | 481                                           |
| Loans and advances to banks                                | 440                     | 440                                           |
| Loans and advances to customers                            | 9,245                   | 9,352                                         |
| Investment securities                                      | 1,604                   | 1,609                                         |
| Intangibles other than goodwill                            | 122                     | –                                             |
| Financial assets held at fair value through profit or loss | 563                     | 563                                           |
| Property, plant and equipment                              | 286                     | 307                                           |
| Deferred tax assets                                        | 144                     | 140                                           |
| Other assets                                               | 212                     | 213                                           |
| Total assets                                               | 13,097                  | 13,105                                        |
| Deposits by banks                                          | 988                     | 988                                           |
| Customer accounts                                          | 10,709                  | 10,709                                        |
| Debt securities in issue                                   | 532                     | 532                                           |
| Other liabilities                                          | 60                      | 57                                            |
| Subordinated liabilities and other borrowed funds          | 545                     | 545                                           |
| Total liabilities                                          | 12,834                  | 12,831                                        |
| Minority interest                                          | 10                      | 10                                            |
| Net assets acquired                                        | 253                     | 264                                           |
| Purchase consideration settled in cash                     | 1,201                   |                                               |
| Cash and cash equivalents in subsidiary acquired           | (589)                   |                                               |
| Cash outflow on acquisition                                | 612                     |                                               |

\* Cash and balances at central banks include amounts subject to regulatory restrictions.

Due to the proximity of the acquisition to the year-end the fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

## Notes to the Accounts continued

### 23. Business Combinations continued

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

|                        | \$million |
|------------------------|-----------|
| Brand names            | 24        |
| Customer relationships | 43        |
| Core deposits          | 55        |
| Total                  | 122       |

If the acquisitions of Union and Hsinchu had occurred on 1 January 2006, the operating income of the Group (excluding the income relating to the incremental stake acquired in Permata) would have been approximately \$8,974 million, with contributions of \$141 million from Union Bank and \$360 million from Hsinchu,

and profit before taxation (excluding the profit relating to the incremental stake acquired in Permata) would have been approximately \$3,053 million, with Union contributing \$38 million and Hsinchu a loss of \$125 million.

### 2005 acquisitions

On 15 April 2005, the Group acquired 100 per cent of the share capital of Korea First Bank (now called SC First Bank), a major banking group in the Republic of Korea (South Korea). The acquired business contributed operating income of \$859 million and profit before tax of \$227 million to the Group for the period from 15 April 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, SCFB would have added approximately \$1,150 million to Group operating income and \$300 million to profit before tax for the period.

|                                                             | \$million |
|-------------------------------------------------------------|-----------|
| Details of net assets acquired and goodwill are as follows: |           |
| Purchase consideration:                                     |           |
| – cash paid                                                 | 3,338     |
| – direct costs relating to the acquisition                  | 35        |
| Total purchase consideration                                | 3,373     |
| Fair value of net assets acquired                           | 1,635     |
| Goodwill                                                    | 1,738     |

The goodwill is attributable to the significant synergies expected to arise from the development of SCFB within the Standard Chartered Group and those intangibles, such as workforce in place, which are not recognised separately.

### 23. Business Combinations continued

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

|                                                                 | Fair value<br>\$million | Acquiree's<br>carrying<br>amount<br>\$million |
|-----------------------------------------------------------------|-------------------------|-----------------------------------------------|
| Cash and balances at central banks*                             | 2,321                   | 2,321                                         |
| Derivative financial instruments                                | 27                      | 27                                            |
| Loans and advances to banks                                     | 890                     | 890                                           |
| Loans and advances to customers                                 | 31,455                  | 31,983                                        |
| Investment securities                                           | 8,153                   | 8,139                                         |
| Intangibles other than goodwill                                 | 229                     | 58                                            |
| Property, plant and equipment                                   | 1,088                   | 1,109                                         |
| Deferred tax assets                                             | 97                      | 15                                            |
| Other assets                                                    | 887                     | 884                                           |
| <b>Total assets</b>                                             | <b>45,147</b>           | <b>45,426</b>                                 |
| Deposits by banks                                               | 2,782                   | 2,782                                         |
| Customer accounts                                               | 18,923                  | 19,328                                        |
| Financial liabilities held at fair value through profit or loss | 121                     | –                                             |
| Derivative financial instruments                                | 240                     | 240                                           |
| Debt securities in issue                                        | 16,871                  | 17,243                                        |
| Other liabilities                                               | 2,962                   | 2,239                                         |
| Subordinated liabilities and other borrowed funds               | 1,280                   | 1,514                                         |
| <b>Total liabilities</b>                                        | <b>43,179</b>           | <b>43,346</b>                                 |
| Minority interest                                               | 333                     | 298                                           |
| <b>Net assets acquired</b>                                      | <b>1,635</b>            | <b>1,782</b>                                  |
| Purchase consideration settled in cash                          | 3,373                   |                                               |
| Cash and cash equivalents in subsidiary acquired                | (2,378)                 |                                               |
| <b>Cash outflow on acquisition</b>                              | <b>995</b>              |                                               |

\* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts have been finalised in the 2006 accounts.

The intangible assets acquired as part of the acquisition on SCFB can be analysed as follows:

|                        | \$million  |
|------------------------|------------|
| Brand names            | 86         |
| Customer relationships | 24         |
| Core deposits          | 91         |
| Capitalised software   | 28         |
| <b>Total</b>           | <b>229</b> |

During 2005, the Group acquired a further 24.97 per cent of Standard Chartered Bank (Thai) Public Company Limited in Thailand for \$98 million giving rise to goodwill of \$64 million,

and other businesses giving rise to negative goodwill of \$6 million, which has been recognised through the Consolidated Income Statement.

## Notes to the Accounts continued

### 24. Goodwill and Intangible Assets

|                                   | 2006                  |                                      |                       |                    | 2005                  |                                      |                       |                    |
|-----------------------------------|-----------------------|--------------------------------------|-----------------------|--------------------|-----------------------|--------------------------------------|-----------------------|--------------------|
|                                   | Goodwill<br>\$million | Acquired<br>intangibles<br>\$million | Software<br>\$million | Total<br>\$million | Goodwill<br>\$million | Acquired<br>intangibles<br>\$million | Software<br>\$million | Total<br>\$million |
| <b>Cost</b>                       |                       |                                      |                       |                    |                       |                                      |                       |                    |
| At 1 January                      | 4,451                 | 218                                  | 462                   | 5,131              | 2,643                 | –                                    | 466                   | 3,109              |
| Exchange translation differences  | 212                   | 18                                   | 19                    | 249                | 8                     | 2                                    | (3)                   | 7                  |
| Acquisitions                      | 1,428                 | 179                                  | 9                     | 1,616              | 1,802                 | 216                                  | 28                    | 2,046              |
| Additions                         | –                     | 25                                   | 89                    | 114                | –                     | –                                    | 88                    | 88                 |
| Disposals                         | –                     | –                                    | (18)                  | (18)               | –                     | –                                    | (14)                  | (14)               |
| Amounts written off               | –                     | –                                    | (99)                  | (99)               | (2)                   | –                                    | (103)                 | (105)              |
| Other movements                   | –                     | (1)                                  | (4)                   | (5)                | –                     | –                                    | –                     | –                  |
| At 31 December                    | 6,091                 | 439                                  | 458                   | 6,988              | 4,451                 | 218                                  | 462                   | 5,131              |
| <b>Provision for amortisation</b> |                       |                                      |                       |                    |                       |                                      |                       |                    |
| At 1 January                      | 514                   | 32                                   | 264                   | 810                | 514                   | –                                    | 242                   | 756                |
| Exchange translation differences  | –                     | 4                                    | 8                     | 12                 | –                     | –                                    | (2)                   | (2)                |
| Amortisation for the period       | –                     | 52                                   | 81                    | 133                | –                     | 32                                   | 125                   | 157                |
| Disposals                         | –                     | –                                    | (17)                  | (17)               | –                     | –                                    | (4)                   | (4)                |
| Amounts written off               | –                     | –                                    | (96)                  | (96)               | –                     | –                                    | (97)                  | (97)               |
| At 31 December                    | 514                   | 88                                   | 240                   | 842                | 514                   | 32                                   | 264                   | 810                |
| Net book value                    | 5,577                 | 351                                  | 218                   | 6,146              | 3,937                 | 186                                  | 198                   | 4,321              |

At 31 December 2006, accumulated goodwill impairment losses incurred from 1 January 2004 amounted to \$69 million (2005: \$69 million).

|                                        | \$million  |
|----------------------------------------|------------|
| <b>Acquired intangibles comprises:</b> |            |
| Core deposits                          | 148        |
| Customer relationships                 | 90         |
| Brand names                            | 109        |
| Licences                               | 4          |
|                                        | <b>351</b> |

Acquired intangibles primarily comprise those recognised as part of the acquisitions of SCFB, PT Bank Permata Tbk, Union Bank and Hsinchu. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in SCFB.

## 24. Goodwill and intangible assets continued

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

| Acquisition             | Cash Generating Unit                               | Goodwill<br>\$million |
|-------------------------|----------------------------------------------------|-----------------------|
| SCFB                    | Korean business                                    | 1,913                 |
| Union                   | Pakistan business                                  | 422                   |
| Hsinchu                 | Taiwan business                                    | 965                   |
| Manhattan Card Business | Credit card and personal loan – Asia, India & MESA | 894                   |
| Grindlays (India)       | India business                                     | 377                   |
| Grindlays (MESA)        | MESA business                                      | 368                   |
| SC (Thai)               | Thailand business                                  | 291                   |
| Permata                 | Group's share of Permata                           | 171                   |
| Other                   |                                                    | 176                   |
|                         |                                                    | <b>5,577</b>          |

All recoverable amounts were measured based on value in use. The key assumptions and approach to determining value in use calculations, as set out below, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year, except for Hsinchu (two years) and Permata (five years). These are then extrapolated for periods of up to a further 19 years using steady GDP growth rates. Where these rates are different from available market data on long-term rates, that fact is stated below. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

### SCFB

SCFB was acquired in April 2005 with initial goodwill recognised of \$1,738 million. The business comprises Consumer and Wholesale Banking operations in Korea.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Korea. A discount rate of 13.1 per cent was used.

### Union

Union was acquired in September 2006 with initial goodwill recognised of \$406 million. Additional goodwill of \$17 million arose as a result of a share swap. The business comprises Consumer and Wholesale Banking operations in Pakistan.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Pakistan. A pre-tax discount rate of 24.8 per cent was used.

### Hsinchu

Hsinchu was acquired in October 2006 with initial goodwill recognised of \$948 million. The business comprises Consumer and Wholesale Banking operations in Taiwan.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Taiwan. A pre-tax discount rate of 15.2 per cent was used.

### Manhattan Card Business

Manhattan Card Business was acquired in 2000 with initial goodwill recognised of \$1,061 million. This was amortised to \$892 million under UK GAAP until 31 December 2003. The business comprises a credit card business and a personal loans business across Asia, India and MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast global GDP growth. A discount rate of 13.6 per cent was used.

### Grindlays (India)

Grindlays (India) was acquired in 2000 with initial goodwill recognised of \$446 million. This was amortised to \$366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in India.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of India. A discount rate of 25.8 per cent was used.

### Grindlays (MESA)

Grindlays (MESA) was acquired in 2000 with initial goodwill recognised of \$446 million. This was amortised to \$366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long term forecast GDP growth of MESA. A discount rate of 18.5 per cent was used.

### SC (Thai)

75 per cent of SC Thai (formerly SC Nakornthon) was acquired in 1999 with initial goodwill recognised of \$222 million. This was amortised to \$204 million under UK GAAP until 31 December 2003. In 2005 the Group acquired the remaining 25 per cent, increasing goodwill to \$272 million. The business comprises Consumer and Wholesale Banking operations in Thailand.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long term forecast GDP growth of Thailand. A discount rate of 18.7 per cent was used.

### Permata

31.55 per cent of Permata was acquired in 2004 with initial goodwill recognised of \$115 million. A further 12.96 per cent was acquired in September 2006 with goodwill of \$57 million. This business comprises Consumer and Wholesale Banking operations in Indonesia.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Indonesia. A discount rate of 20.0 per cent was used.

## Notes to the Accounts continued

### 25. Property, Plant and Equipment

|                                                    | 2006                  |                        |                    | 2005                  |                        |                    |
|----------------------------------------------------|-----------------------|------------------------|--------------------|-----------------------|------------------------|--------------------|
|                                                    | Premises<br>\$million | Equipment<br>\$million | Total<br>\$million | Premises<br>\$million | Equipment<br>\$million | Total<br>\$million |
| <b>Cost or valuation</b>                           |                       |                        |                    |                       |                        |                    |
| At 1 January                                       | 1,694                 | 414                    | 2,108              | 653                   | 337                    | 990                |
| Exchange translation differences                   | 106                   | 10                     | 116                | –                     | (6)                    | (6)                |
| Additions                                          | 146                   | 99                     | 245                | 70                    | 65                     | 135                |
| Acquisitions                                       | 288                   | 47                     | 335                | 1,052                 | 36                     | 1,088              |
| Disposals and fully depreciated assets written off | (47)                  | (64)                   | (111)              | (26)                  | (66)                   | (92)               |
| Other                                              | (3)                   | 3                      | –                  | (55)                  | 48                     | (7)                |
| At 31 December                                     | 2,184                 | 509                    | 2,693              | 1,694                 | 414                    | 2,108              |
| <b>Depreciation</b>                                |                       |                        |                    |                       |                        |                    |
| Accumulated at 1 January                           | 177                   | 287                    | 464                | 180                   | 255                    | 435                |
| Exchange translation differences                   | 6                     | 7                      | 13                 | (4)                   | (6)                    | (10)               |
| Charge for the year                                | 57                    | 78                     | 135                | 53                    | 73                     | 126                |
| Attributable to assets sold or written off         | (25)                  | (62)                   | (87)               | (22)                  | (62)                   | (84)               |
| Other                                              | –                     | –                      | –                  | (30)                  | 27                     | (3)                |
| Accumulated at 31 December                         | 215                   | 310                    | 525                | 177                   | 287                    | 464                |
| Net book amount at 31 December                     | 1,969                 | 199                    | 2,168              | 1,517                 | 127                    | 1,644              |

Assets held under finance leases have the following net book amount:

|                        | 2006                  |                        | 2005                  |                        |
|------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                        | Premises<br>\$million | Equipment<br>\$million | Premises<br>\$million | Equipment<br>\$million |
| Cost                   | 47                    | 4                      | 48                    | 7                      |
| Aggregate depreciation | (4)                   | (2)                    | (3)                   | (5)                    |
| Net book amount        | 43                    | 2                      | 45                    | 2                      |

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

|                                                                 | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------------------|-------------------|-------------------|
| <b>Minimum lease payments under finance leases falling due:</b> |                   |                   |
| Within one year                                                 | 1                 | 1                 |
| Later than one year and less than five years                    | 2                 | 2                 |
| After five years                                                | –                 | –                 |
|                                                                 | 3                 | 3                 |
| Future finance charges on finance leases                        | –                 | –                 |
| Present value of finance lease liabilities                      | 3                 | 3                 |

## 26. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

|                                             | At<br>1 January<br>2006<br>\$million | Exchange &<br>other<br>adjustments<br>\$million | Acquisitions<br>\$million | Charge to<br>profit<br>\$million | Charge to<br>equity<br>\$million | At<br>31 December<br>2006<br>\$million |
|---------------------------------------------|--------------------------------------|-------------------------------------------------|---------------------------|----------------------------------|----------------------------------|----------------------------------------|
| Deferred taxation comprises:                |                                      |                                                 |                           |                                  |                                  |                                        |
| Accelerated tax depreciation                | (34)                                 | 30                                              | (10)                      | 4                                | –                                | (10)                                   |
| Impairment provisions on loans and advances | (185)                                | (27)                                            | (111)                     | 160                              | –                                | (163)                                  |
| Tax losses carried forward                  | (7)                                  | –                                               | (37)                      | (24)                             | –                                | (68)                                   |
| Available-for-sale assets                   | (32)                                 | (2)                                             | –                         | –                                | 70                               | 36                                     |
| Premises revaluation                        | 12                                   | –                                               | (4)                       | 5                                | –                                | 13                                     |
| Cash flow hedges                            | (1)                                  | –                                               | –                         | –                                | 25                               | 24                                     |
| Unrelieved foreign tax                      | –                                    | –                                               | –                         | (76)                             | –                                | (76)                                   |
| Retirement benefit obligations              | (160)                                | (12)                                            | (9)                       | (8)                              | 38                               | (151)                                  |
| Share based payments                        | (101)                                | –                                               | –                         | (1)                              | (29)                             | (131)                                  |
| Other temporary differences                 | 10                                   | (40)                                            | (60)                      | 86                               | (8)                              | (12)                                   |
|                                             | (498)                                | (51)                                            | (231)                     | 146                              | 96                               | (538)                                  |

|                                             | At<br>1 January<br>2005<br>\$million | Exchange<br>translation<br>differences<br>\$million | Acquisitions<br>\$million | Charge to<br>profit<br>\$million | Credit to<br>equity<br>\$million | At<br>31 December<br>2005<br>\$million |
|---------------------------------------------|--------------------------------------|-----------------------------------------------------|---------------------------|----------------------------------|----------------------------------|----------------------------------------|
| Deferred taxation comprises:                |                                      |                                                     |                           |                                  |                                  |                                        |
| Accelerated tax depreciation                | (5)                                  | –                                                   | (17)                      | (12)                             | –                                | (34)                                   |
| Impairment provisions on loans and advances | (128)                                | (3)                                                 | (53)                      | (1)                              | –                                | (185)                                  |
| Tax losses carried forward                  | (9)                                  | –                                                   | –                         | 2                                | –                                | (7)                                    |
| Available-for-sale assets                   | 9                                    | –                                                   | 8                         | –                                | (49)                             | (32)                                   |
| Premises revaluation                        | 12                                   | –                                                   | –                         | –                                | –                                | 12                                     |
| Cash flow hedges                            | (1)                                  | –                                                   | –                         | –                                | –                                | (1)                                    |
| Unrelieved foreign tax                      | (21)                                 | –                                                   | –                         | 21                               | –                                | –                                      |
| Retirement benefit obligations              | (46)                                 | (1)                                                 | (47)                      | (15)                             | (51)                             | (160)                                  |
| Share based payments                        | (7)                                  | –                                                   | –                         | (8)                              | (86)                             | (101)                                  |
| Other temporary differences                 | (22)                                 | 1                                                   | 12                        | 48                               | (29)                             | 10                                     |
|                                             | (218)                                | (3)                                                 | (97)                      | 35                               | (215)                            | (498)                                  |

|                                                                                              | 2006<br>\$million | 2005<br>\$million |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|
| No account has been taken of the following potential deferred taxation assets/(liabilities): |                   |                   |
| Unrelieved foreign tax                                                                       | 222               | 239               |
| Unremitted earnings from overseas subsidiaries                                               | (282)             | (144)             |
| Foreign exchange movements on investments in branches                                        | (41)              | 33                |
| Other                                                                                        | 34                | 35                |

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings or branches that are foreign operations at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future.

## Notes to the Accounts continued

### 27. Other Assets

|                                                                 | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------------------------|-------------------|-------------------|
| Hong Kong SAR Government certificates of indebtedness (note 33) | 2,605             | 2,492             |
| Other                                                           | 5,996             | 4,671             |
|                                                                 | <b>8,601</b>      | <b>7,163</b>      |

The government of Hong Kong certificates of indebtedness are subordinated to the claims of other parties.

### 28. Deposits by Banks

|                                                                           | 2006<br>\$million | 2005<br>\$million |
|---------------------------------------------------------------------------|-------------------|-------------------|
| Deposits by banks                                                         | 26,233            | 18,834            |
| Deposits by banks included within:                                        |                   |                   |
| Financial liabilities held at fair value through profit or loss (note 30) | 1,889             | 1,439             |
|                                                                           | <b>28,122</b>     | <b>20,273</b>     |

### 29. Customer Accounts

|                                                                           | 2006<br>\$million | 2005<br>\$million |
|---------------------------------------------------------------------------|-------------------|-------------------|
| Customer accounts                                                         | 147,382           | 119,931           |
| Customer accounts included within:                                        |                   |                   |
| Financial liabilities held at fair value through profit or loss (note 30) | 1,906             | 1,008             |
|                                                                           | <b>149,288</b>    | <b>120,939</b>    |

Included in customer accounts were deposits of \$1,724 million (2005: \$2,640 million) held as collateral for irrevocable commitments under import letters of credit.

### 30. Financial Liabilities Held at Fair Value through Profit or Loss

|                          | 2006                 |                                                                       |                    |
|--------------------------|----------------------|-----------------------------------------------------------------------|--------------------|
|                          | Trading<br>\$million | Designated<br>at fair value<br>through profit<br>or loss<br>\$million | Total<br>\$million |
| Deposits by banks        | 1,286                | 603                                                                   | 1,889              |
| Customer accounts        | 485                  | 1,421                                                                 | 1,906              |
| Debt securities in issue | 1,514                | 1,771                                                                 | 3,285              |
| Short positions          | 2,889                | –                                                                     | 2,889              |
|                          | 6,174                | 3,795                                                                 | 9,969              |

|                          | 2005                 |                                                                       |                    |
|--------------------------|----------------------|-----------------------------------------------------------------------|--------------------|
|                          | Trading<br>\$million | Designated<br>at fair value<br>through profit<br>or loss<br>\$million | Total<br>\$million |
| Deposits by banks        | 1,102                | 337                                                                   | 1,439              |
| Customer accounts        | 394                  | 614                                                                   | 1,008              |
| Debt securities in issue | 1,068                | 433                                                                   | 1,501              |
| Short positions          | 2,345                | –                                                                     | 2,345              |
|                          | 4,909                | 1,384                                                                 | 6,293              |

The Group designates certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk, or
- are exposed foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes, or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Derivatives are recorded at fair value whereas non-trading financial liabilities (unless designated at fair value) are recorded at amortised cost. Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting

mismatch between fair value and amortised cost expense recognition (a criterion of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of derivatives to the corresponding liabilities, either individually or on a portfolio basis.

The changes in fair value of both the underlying liabilities and derivatives are monitored in a similar manner to trading book portfolios.

The fair value loss on liabilities designated at fair value through profit or loss was \$31.2 million for the year (2005: \$12 million gain). Of this, \$3.7 million (2005: \$1.7 million gain) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$5.4 million (2005: \$1.9 million).

As at December 2006, the difference between the carrying amount at fair value and the amount the Group is contractually obliged to pay at maturity to the holders of the obligations was \$67.7 million (2005: \$34.1 million).

### 31. Debt Securities in Issue

|                                                                              | 2006                                                               |                                                   |                    | 2005                                                               |                                                   |                    |
|------------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------|--------------------|--------------------------------------------------------------------|---------------------------------------------------|--------------------|
|                                                                              | Certificates of<br>deposit of<br>\$100,000<br>or more<br>\$million | Other debt<br>securities<br>in issue<br>\$million | Total<br>\$million | Certificates of<br>deposit of<br>\$100,000<br>or more<br>\$million | Other debt<br>securities<br>in issue<br>\$million | Total<br>\$million |
| Debt securities in issue                                                     | 10,939                                                             | 12,575                                            | 23,514             | 14,179                                                             | 11,734                                            | 25,913             |
| Debt securities in issue included within:                                    |                                                                    |                                                   |                    |                                                                    |                                                   |                    |
| Financial liabilities held at fair value<br>through profit or loss (note 30) | 1,154                                                              | 2,131                                             | 3,285              | 201                                                                | 1,300                                             | 1,501              |
|                                                                              | 12,093                                                             | 14,706                                            | 26,799             | 14,380                                                             | 13,034                                            | 27,414             |

## Notes to the Accounts continued

### 32. Structure of deposits

The following tables set out the structure of the Group's deposits by principal geographic region where it operates at 31 December 2006 and 31 December 2005.

| 2006                                             |                           |                        |                       |                    |                                       |                    |                                                  |                                                          |                    |         |
|--------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|--------------------------------------------------|----------------------------------------------------------|--------------------|---------|
|                                                  | Asia Pacific              |                        |                       |                    |                                       |                    |                                                  | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |         |
|                                                  | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million | India<br>\$million | Middle<br>East &<br>Other<br>S Asia<br>\$million |                                                          |                    |         |
| Non interest bearing current and demand accounts | 3,320                     | 1,722                  | 1,435                 | 163                | 2,123                                 | 2,082              | 3,654                                            | 1,649                                                    | 894                | 17,042  |
| Interest bearing current and demand accounts     | 16,894                    | 2,964                  | 261                   | 15,263             | 5,456                                 | 5                  | 1,300                                            | 1,136                                                    | 5,529              | 48,808  |
| Savings deposits                                 | 10                        | 1,857                  | 741                   | 11                 | 11,089                                | 1,451              | 1,685                                            | 449                                                      | –                  | 17,293  |
| Time deposits                                    | 18,961                    | 9,754                  | 5,211                 | 16,682             | 12,293                                | 4,073              | 6,901                                            | 1,575                                                    | 13,574             | 89,024  |
| Other deposits                                   | 14                        | 7                      | 750                   | 1,756              | 1,507                                 | 241                | 568                                              | 140                                                      | 260                | 5,243   |
| Total                                            | 39,199                    | 16,304                 | 8,398                 | 33,875             | 32,468                                | 7,852              | 14,108                                           | 4,949                                                    | 20,257             | 177,410 |
| Deposits by banks                                | 734                       | 1,276                  | 597                   | 9,297              | 5,869                                 | 871                | 1,968                                            | 323                                                      | 7,187              | 28,122  |
| Customer accounts                                | 38,465                    | 15,028                 | 7,801                 | 24,578             | 26,599                                | 6,981              | 12,140                                           | 4,626                                                    | 13,070             | 149,288 |
|                                                  | 39,199                    | 16,304                 | 8,398                 | 33,875             | 32,468                                | 7,852              | 14,108                                           | 4,949                                                    | 20,257             | 177,410 |
| Debt securities in issue                         | 627                       | 1,087                  | 992                   | 17,561             | 1,597                                 | 932                | 12                                               | 171                                                      | 3,820              | 26,799  |
| Total                                            | 39,826                    | 17,391                 | 9,390                 | 51,436             | 34,065                                | 8,784              | 14,120                                           | 5,120                                                    | 24,077             | 204,209 |

| 2005                                             |                           |                        |                       |                    |                                       |                    |                                                  |                                                          |                    |         |
|--------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|--------------------------------------------------|----------------------------------------------------------|--------------------|---------|
|                                                  | Asia Pacific              |                        |                       |                    |                                       |                    |                                                  | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |         |
|                                                  | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million | India<br>\$million | Middle<br>East &<br>Other<br>S Asia<br>\$million |                                                          |                    |         |
| Non interest bearing current and demand accounts | 2,998                     | 2,001                  | 1,120                 | 216                | 1,343                                 | 1,928              | 2,855                                            | 1,359                                                    | 473                | 14,293  |
| Interest bearing current and demand accounts     | 12,753                    | 2,063                  | 148                   | 13,554             | 3,612                                 | 3                  | 1,110                                            | 1,264                                                    | 4,534              | 39,041  |
| Savings deposits                                 | 6                         | 1,383                  | 459                   | 12                 | 2,478                                 | 1,286              | 1,369                                            | 368                                                      | –                  | 7,361   |
| Time deposits                                    | 17,893                    | 11,324                 | 4,046                 | 14,542             | 8,397                                 | 3,164              | 5,179                                            | 872                                                      | 10,675             | 76,092  |
| Other deposits                                   | 20                        | 49                     | 1,120                 | 1,322              | 748                                   | 11                 | 432                                              | 97                                                       | 626                | 4,425   |
| Total                                            | 33,670                    | 16,820                 | 6,893                 | 29,646             | 16,578                                | 6,392              | 10,945                                           | 3,960                                                    | 16,308             | 141,212 |
| Deposits by banks                                | 627                       | 3,641                  | 652                   | 4,742              | 3,517                                 | 676                | 1,893                                            | 98                                                       | 4,427              | 20,273  |
| Customer accounts                                | 33,043                    | 13,179                 | 6,241                 | 24,904             | 13,061                                | 5,716              | 9,052                                            | 3,862                                                    | 11,881             | 120,939 |
|                                                  | 33,670                    | 16,820                 | 6,893                 | 29,646             | 16,578                                | 6,392              | 10,945                                           | 3,960                                                    | 16,308             | 141,212 |
| Debt securities in issue                         | 840                       | 1,111                  | 619                   | 19,815             | 741                                   | 655                | –                                                | 85                                                       | 3,548              | 27,414  |
| Total                                            | 34,510                    | 17,931                 | 7,512                 | 49,461             | 17,319                                | 7,047              | 10,945                                           | 4,045                                                    | 19,856             | 168,626 |

### 33. Other Liabilities

|                                   | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------|-------------------|-------------------|
| Notes in circulation              | 2,605             | 2,492             |
| Cash-settled share based payments | 50                | 26                |
| Other liabilities                 | 8,700             | 5,928             |
|                                   | <b>11,355</b>     | <b>8,446</b>      |

Hong Kong currency notes in circulation of \$2,605 million (2005: \$2,492 million) are secured by the government of Hong Kong certificates of indebtedness of the same amount included in other assets (note 27).

### 34. Provisions for Liabilities and Charges

|                                  | Provision for<br>credit<br>commitments<br>\$million | Other<br>provisions<br>\$million | Total<br>\$million |
|----------------------------------|-----------------------------------------------------|----------------------------------|--------------------|
| At 1 January 2006                | 43                                                  | 12                               | 55                 |
| Exchange translation differences | 2                                                   | –                                | 2                  |
| Acquired                         | 1                                                   | –                                | 1                  |
| (Release)/charge against profit  | (5)                                                 | 16                               | 11                 |
| Provisions utilised              | (9)                                                 | (11)                             | (20)               |
| Other                            | (5)                                                 | 1                                | (4)                |
| At 31 December 2006              | 27                                                  | 18                               | 45                 |

Provision for credit commitments comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet its repayment obligations.

### 35. Retirement Benefit Obligations

Retirement benefit obligations comprise:

|                                         | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------|-------------------|-------------------|
| Defined benefit schemes obligation      | 460               | 465               |
| Defined contribution schemes obligation | 12                | 11                |
| Net book amount                         | <b>472</b>        | <b>476</b>        |

|                                               | 2006<br>\$million | 2005<br>\$million |
|-----------------------------------------------|-------------------|-------------------|
| At 1 January                                  | 476               | 169               |
| Exchange translation differences              | 48                | (7)               |
| Charge against profit (net of finance income) | 166               | 126               |
| Change in net liability                       | (218)             | 188               |
| At 31 December                                | <b>472</b>        | <b>476</b>        |

Retirement benefit charge comprises:

|                                | 2006*<br>\$million | 2005<br>\$million |
|--------------------------------|--------------------|-------------------|
| Defined benefit schemes        | 96                 | 71                |
| Defined contribution schemes   | 70                 | 60                |
| Charge against profit (note 7) | <b>166</b>         | <b>131</b>        |

\* The 2006 charge is presented net of finance charge of \$6 million.

## Notes to the Accounts continued

### 35. Retirement Benefit Obligations continued

#### UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the "Fund") (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2002 by T. Cunningham, Fellow of the

Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. A new valuation of the Fund is being carried out with an effective date of 31 December 2005. The results of the valuation were not available at the time of publication. The assumptions having the most significant effect on the outcome of this valuation were:

|                                                                   |                        |
|-------------------------------------------------------------------|------------------------|
| Return from investments held for pensioners                       | 5.0 per cent per annum |
| Return from investments held for non-pensioners before retirement | 6.4 per cent per annum |
| Return from investments held for non-pensioners after retirement  | 5.2 per cent per annum |
| General increase in salaries                                      | 4.8 per cent per annum |
| Increase in pensions:                                             |                        |
| In deferment (where applicable)                                   | 2.3 per cent per annum |
| In payment* (pre April 1997 service)                              | 2.3 per cent per annum |
| In payment (post April 1997 service)                              | 2.3 per cent per annum |

\* Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund (\$1,197 million) was sufficient to cover 97 per cent of the benefits that had accrued to members (84 per cent including the allowance for discretionary benefit increases). The Group paid an additional contribution of \$114 million into the Fund on 30 December 2003 to improve the financial position of the Fund. No further additional contributions were paid during 2004 and none are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2006 totalled \$19 million (2005: \$11 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) employees and seconded staff, and 38.4 per cent of pensionable salary for international staff. With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, the current service cost will increase as a percentage of pensionable pay as the members approach retirement.

Pension costs for the purpose of these accounts were assessed using the projected unit method, and the assumptions set out below were based on market data at the date of calculation.

#### Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Hong Kong, India, Jersey, Korea, Taiwan and the United States.

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2006. (The effective date of the full valuations ranges between 31 December 2004 and 31 December 2005.)

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2006 were:

|                                    | Funded Defined Benefit Schemes |           |                  |           |
|------------------------------------|--------------------------------|-----------|------------------|-----------|
|                                    | UK Fund**                      |           | Overseas Scheme* |           |
|                                    | 2006<br>%                      | 2005<br>% | 2006<br>%        | 2005<br>% |
| Price inflation                    | 3.00                           | 2.80      | 1.5-4.5          | 1.5-4.5   |
| Salary increases                   | 4.50                           | 5.30      | 3.25-5.50        | 3.5-5.5   |
| Pension increases                  | 2.90                           | 2.70      | 0.00-2.90        | 0.00-2.70 |
| Discount rate                      | 5.20                           | 4.90      | 2.25-8.00        | 2.25-7.50 |
| Post-retirement medical trend rate | N/A                            | N/A       | N/A              | N/A       |

Pension increases for the UK Fund range from 2.9 per cent to 3.0 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 3.0 per cent.

\* The range of assumptions shown is for the main funded defined benefit overseas schemes in Hong Kong, India, Jersey, Korea, Taiwan and the United States. These comprise 92 per cent of the total liabilities of funded overseas schemes.

\*\* The assumption for life expectancy for the UK fund assumes that a male member currently aged 60 will live for 26 years (2005: 26 years) and a female member 29 years (2005: 29 years) and a male member currently aged 40 will live for 27 years (2005: 29 years) and a female member 30 years (2005: 30 years) after their 60th birthday.

### 35. Retirement Benefit Obligations continued

|                              | Unfunded Schemes                                              |                                                                |            |            |
|------------------------------|---------------------------------------------------------------|----------------------------------------------------------------|------------|------------|
|                              | Post-retirement Medical*                                      |                                                                | Other      |            |
|                              | 2006<br>%                                                     | 2005<br>%                                                      | 2006<br>%  | 2005<br>%  |
| Price inflation              | 2.70                                                          | 2.70                                                           | 2.5-7.00   | 2.70-6.00  |
| Salary increases             | 4.00                                                          | 4.00                                                           | 4.00-9.00  | 4.00-8.00  |
| Pension increases            | N/A                                                           | N/A                                                            | 0.00-2.90  | 0.00-2.70  |
| Discount rate                | 6.00                                                          | 5.75                                                           | 3.00-10.50 | 3.00-14.00 |
| Post-retirement medical rate | 9% in 2006<br>reducing by<br>1% per<br>annum to<br>5% in 2010 | 10% in 2005<br>reducing by<br>1% per<br>annum to 5%<br>in 2010 | N/A        | N/A        |

\* The Post-retirement Medical plan is in the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2006 were:

|                                           | Funded Defined Benefit Schemes    |                    |                                   |                    | Unfunded Schemes                  |                    |                                   |                    |
|-------------------------------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|
|                                           | UK Fund                           |                    | Overseas Schemes                  |                    | Post-retirement Medical           |                    | Other                             |                    |
|                                           | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million |
| At 31 December 2006                       |                                   |                    |                                   |                    |                                   |                    |                                   |                    |
| Equities                                  | 7.50                              | 570                | 8.00-14.00                        | 210                | N/A                               | N/A                | N/A                               | N/A                |
| Bonds                                     | 4.50                              | 1,144              | 4.25-8.00                         | 155                | N/A                               | N/A                | N/A                               | N/A                |
| Property                                  | N/A                               | –                  | 7.00-12.00                        | 3                  | N/A                               | N/A                | N/A                               | N/A                |
| Others                                    | 4.50                              | 108                | 2.50-5.10                         | 149                | N/A                               | N/A                | N/A                               | N/A                |
| Total market value of assets              |                                   | 1,822              |                                   | 517                |                                   | N/A                |                                   | N/A                |
| Present value of the schemes' liabilities |                                   | (1,982)            |                                   | (542)              |                                   | (9)                |                                   | (266)              |
| Net pension liability*                    |                                   | (160)              |                                   | (25)               |                                   | (9)                |                                   | (266)              |

|                                           | Funded Defined Benefit Schemes    |                    |                                   |                    | Unfunded Schemes                  |                    |                                   |                    |
|-------------------------------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|
|                                           | UK Fund                           |                    | Overseas Schemes                  |                    | Post-retirement Medical           |                    | Other                             |                    |
|                                           | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million |
| At 31 December 2005                       |                                   |                    |                                   |                    |                                   |                    |                                   |                    |
| Equities                                  | 7.75                              | 619                | 7.75-12.00                        | 162                | N/A                               | N/A                | N/A                               | N/A                |
| Bonds                                     | 4.25                              | 909                | 4.25-12.00                        | 133                | N/A                               | N/A                | N/A                               | N/A                |
| Property                                  | N/A                               | –                  | 7.00-12.00                        | 2                  | N/A                               | N/A                | N/A                               | N/A                |
| Others                                    | 4.90                              | 22                 | 1.75-4.90                         | 83                 | N/A                               | N/A                | N/A                               | N/A                |
| Total market value of assets              |                                   | 1,550              |                                   | 380                |                                   | N/A                |                                   | N/A                |
| Present value of the schemes' liabilities |                                   | (1,785)            |                                   | (403)              |                                   | (11)               |                                   | (196)              |
| Net pension liability*                    |                                   | (235)              |                                   | (23)               |                                   | (11)               |                                   | (196)              |

|                                           | Funded Defined Benefit Schemes |  |                    |  | Unfunded Schemes        |  |                    |  |
|-------------------------------------------|--------------------------------|--|--------------------|--|-------------------------|--|--------------------|--|
|                                           | UK Fund                        |  | Overseas Schemes   |  | Post-retirement Medical |  | Other              |  |
|                                           | Value<br>\$million             |  | Value<br>\$million |  | Value<br>\$million      |  | Value<br>\$million |  |
| At 31 December 2004                       |                                |  |                    |  |                         |  |                    |  |
| Total market value of assets              | 1,596                          |  | 317                |  | N/A                     |  | N/A                |  |
| Present value of the schemes' liabilities | (1,679)                        |  | (338)              |  | (11)                    |  | (45)               |  |
| Net pension liability*                    | (83)                           |  | (21)               |  | (11)                    |  | (45)               |  |

The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Korea, Taiwan and the United States.

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

\* No scheme contains a surplus that is non-recoverable.

## Notes to the Accounts continued

### 35. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

| Year ending 31 December 2006                                                           | Funded Defined Benefit Schemes |                            | Unfunded Schemes                  |                 | Total \$million |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------------------|-----------------|-----------------|
|                                                                                        | UK Fund \$million              | Overseas Schemes \$million | Post-retirement Medical \$million | Other \$million |                 |
| Current service cost                                                                   | 21                             | 42                         | –                                 | 17              | 80              |
| Past service cost                                                                      | 9                              | 1                          | –                                 | (1)             | 9               |
| Loss on settlements and curtailments                                                   | 1                              | –                          | –                                 | –               | 1               |
| Expected return on pension scheme assets                                               | (93)                           | (23)                       | –                                 | –               | (116)           |
| Interest on pension scheme liabilities                                                 | 92                             | 19                         | 1                                 | 10              | 122             |
| Total charge to profit before deduction of tax                                         | 30                             | 39                         | 1                                 | 26              | 96              |
| Gain on assets in excess of expected return*                                           | (23)                           | (27)                       | –                                 | –               | (50)            |
| Experience (gain)/loss on liabilities                                                  | (90)                           | 20                         | (2)                               | 18              | (54)            |
| Total (gain)/loss recognised in Statement of Recognised Income and Expenses before tax | (113)                          | (7)                        | (2)                               | 18              | (104)           |
| Deferred taxation                                                                      | 34                             | 3                          | –                                 | 1               | 38              |
| Total (gain)/loss after tax                                                            | (79)                           | (4)                        | (2)                               | 19              | (66)            |

\* The actual return on the UK fund assets was \$116 million and on overseas scheme assets was \$50 million.

The total cumulative amount recognised in the Statement of Recognised Income and Expenses before tax to date is \$51 million.

| Year ending 31 December 2005                                                           | Funded Defined Benefit Schemes |                            | Unfunded Schemes                  |                 | Total \$million |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------------------|-----------------|-----------------|
|                                                                                        | UK Fund \$million              | Overseas Schemes \$million | Post-retirement Medical \$million | Other \$million |                 |
| Current service cost                                                                   | 16                             | 41                         | 1                                 | 14              | 72              |
| Past service cost                                                                      | –                              | –                          | –                                 | –               | –               |
| Gain on settlements and curtailments                                                   | (1)                            | –                          | –                                 | –               | (1)             |
| Expected return on pension scheme assets                                               | (93)                           | (28)                       | –                                 | –               | (121)           |
| Interest on pension scheme liabilities                                                 | 85                             | 24                         | –                                 | 7               | 116             |
| Total charge to profit before deduction of tax                                         | 7                              | 37                         | 1                                 | 21              | 66              |
| Gain on assets in excess of expected return*                                           | (91)                           | (20)                       | –                                 | –               | (111)           |
| Experience loss on liabilities                                                         | 256                            | 5                          | –                                 | –               | 261             |
| Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax | 165                            | (15)                       | –                                 | –               | 150             |
| Deferred taxation                                                                      | (50)                           | 5                          | –                                 | –               | (45)            |
| Total loss/(gain) after tax                                                            | 115                            | (10)                       | –                                 | –               | 105             |

\* The actual return on the UK fund assets was \$184 million and on overseas scheme assets was \$48 million.

| Year ending 31 December 2004                                                           | Funded Defined Benefit Schemes |                            | Unfunded Schemes                  |                 | Total \$million |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------------------|-----------------|-----------------|
|                                                                                        | UK Fund \$million              | Overseas Schemes \$million | Post-retirement Medical \$million | Other \$million |                 |
| Gain on assets in excess of expected return*                                           | (20)                           | (2)                        | –                                 | –               | (22)            |
| Experience gain on liabilities                                                         | –                              | (1)                        | (1)                               | –               | (2)             |
| Loss/(gain) on change of assumptions                                                   | 23                             | 7                          | –                                 | (1)             | 29              |
| Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax | 3                              | 4                          | (1)                               | (1)             | 5               |
| Deferred taxation                                                                      | (1)                            | –                          | –                                 | –               | (1)             |
| Total loss/(gain) after tax                                                            | 2                              | 4                          | (1)                               | (1)             | 4               |

\* The actual return on the UK fund assets was \$111 million and on overseas scheme assets was \$31 million.

### 35. Retirement Benefit Obligations continued

Movement in the pension schemes and post-retirement medical deficit during the year comprise:

| Year ending 31 December 2006  | Funded Defined Benefit Schemes |                                  | Unfunded Schemes                            |                    | Total<br>\$million |
|-------------------------------|--------------------------------|----------------------------------|---------------------------------------------|--------------------|--------------------|
|                               | UK Fund<br>\$million           | Overseas<br>Schemes<br>\$million | Post-<br>retirement<br>Medical<br>\$million | Other<br>\$million |                    |
| Deficit at 1 January 2006     | (235)                          | (23)                             | (11)                                        | (196)              | (465)              |
| Contributions                 | 19                             | 51                               | 1                                           | 11                 | 82                 |
| Current service cost          | (21)                           | (42)                             | –                                           | (17)               | (80)               |
| Past service cost             | (9)                            | (1)                              | –                                           | 1                  | (9)                |
| Settlement/curtailment costs  | (1)                            | –                                | –                                           | –                  | (1)                |
| Other finance income/(charge) | 1                              | 4                                | (1)                                         | (10)               | (6)                |
| Actuarial (loss)/gain         | 113                            | 7                                | 2                                           | (18)               | 104                |
| Acquisitions                  | –                              | (25)                             | –                                           | (12)               | (37)               |
| Exchange rate adjustment      | (27)                           | (3)                              | –                                           | (18)               | (48)               |
| Reclassifications             | –                              | 7                                | –                                           | (7)                | –                  |
| Deficit at 31 December 2006   | (160)                          | (25)                             | (9)                                         | (266)              | (460)              |

| Year ending 31 December 2005  | Funded Defined Benefit Schemes |                                  | Unfunded Schemes                            |                    | Total<br>\$million |
|-------------------------------|--------------------------------|----------------------------------|---------------------------------------------|--------------------|--------------------|
|                               | UK Fund<br>\$million           | Overseas<br>Schemes<br>\$million | Post-<br>retirement<br>Medical<br>\$million | Other<br>\$million |                    |
| Deficit at 1 January 2005     | (83)                           | (21)                             | (11)                                        | (45)               | (160)              |
| Contributions                 | 11                             | 49                               | 1                                           | 11                 | 72                 |
| Current service cost          | (16)                           | (41)                             | (1)                                         | (14)               | (72)               |
| Past service cost             | –                              | –                                | –                                           | –                  | –                  |
| Settlement/curtailment costs  | 1                              | –                                | –                                           | –                  | 1                  |
| Other finance income/(charge) | 8                              | 4                                | –                                           | (7)                | 5                  |
| Actuarial (loss)/gain         | (165)                          | 15                               | –                                           | –                  | (150)              |
| Acquisitions                  | –                              | (28)                             | –                                           | (141)              | (169)              |
| Exchange rate adjustment      | 9                              | (1)                              | –                                           | –                  | 8                  |
| Deficit at 31 December 2005   | (235)                          | (23)                             | (11)                                        | (196)              | (465)              |

Movement in the pension schemes and post-retirement medical gross assets and obligations during the year comprise:

| Year ending 31 December 2006     | Assets<br>\$million | Obligations<br>\$million | Total<br>\$million |
|----------------------------------|---------------------|--------------------------|--------------------|
| Deficit at 1 January 2006        | 1,930               | (2,395)                  | (465)              |
| Contributions                    | 82                  | –                        | 82                 |
| Current service cost             | –                   | (80)                     | (80)               |
| Past service cost                | –                   | (9)                      | (9)                |
| Settlement/curtailment costs     | –                   | (1)                      | (1)                |
| Interest cost                    | –                   | (122)                    | (122)              |
| Expected return on scheme assets | 116                 | –                        | 116                |
| Benefits paid out                | (119)               | 119                      | –                  |
| Actuarial gain                   | 50                  | 54                       | 104                |
| Acquisitions                     | 48                  | (85)                     | (37)               |
| Exchange rate adjustment         | 232                 | (280)                    | (48)               |
| Deficit at 31 December 2006      | 2,339               | (2,799)                  | (460)              |

## Notes to the Accounts continued

### 35. Retirement Benefit Obligations continued

| Year ending 31 December 2005     | Assets<br>\$million | Obligations<br>\$million | Total<br>\$million |
|----------------------------------|---------------------|--------------------------|--------------------|
| Deficit at 1 January 2005        | 1,913               | (2,073)                  | (160)              |
| Contributions                    | 72                  | –                        | 72                 |
| Current service cost             | –                   | (72)                     | (72)               |
| Settlement/curtailment costs     | –                   | 1                        | 1                  |
| Interest cost                    | –                   | (116)                    | (116)              |
| Expected return on scheme assets | 121                 | –                        | 121                |
| Benefits paid out                | (98)                | 98                       | –                  |
| Actuarial (loss)/gain            | 111                 | (261)                    | (150)              |
| Acquisitions                     | 2                   | (171)                    | (169)              |
| Exchange rate adjustment         | (191)               | 199                      | 8                  |
| Deficit at 31 December 2005      | 1,930               | (2,395)                  | (465)              |

### 36. Subordinated Liabilities and Other Borrowed Funds

|                                                                                                   | 2006<br>\$million | 2005<br>\$million |
|---------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Subordinated loan capital – issued by subsidiary undertakings</b>                              |                   |                   |
| £30 million Floating Rate Notes 2009                                                              | 58                | 51                |
| £300 million 6.75 per cent Notes 2009                                                             | 526               | 476               |
| €600 million 5.375 per cent Notes 2009                                                            | 710               | 655               |
| BWP 75 million Floating Rate Notes 2012                                                           | 13                | 14                |
| \$700 million 8.0 per cent subordinated Notes 2031                                                | 724               | 753               |
| €500 million 8.16 per cent non-cumulative Trust Preferred Securities (callable 2010)              | 674               | 630               |
| £600 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities (callable 2016) | 1,342             | 628               |
| £200 million 7.75 per cent Step-Up Notes (callable 2022)                                          | 454               | 426               |
| \$350 million 4.375 per cent Notes 2014 (Floating rate from 2009)                                 | 340               | 340               |
| HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)                                 | 63                | 62                |
| HKD 670 million Floating Rate Notes 2014                                                          | 80                | 85                |
| €750 million 3.625 per cent (Floating rate from 2012) Subordinated Notes 2017                     | 946               | 880               |
| \$500 million Floating Rate Notes 2015                                                            | 499               | 498               |
| \$500 million Floating Rate Notes 2016                                                            | 498               | 498               |
| \$154 million Subordinated debt 2013                                                              | 148               | 383               |
| \$92 million Subordinated debt 2013                                                               | 92                | 206               |
| KRW 205 billion Subordinated debt 2009                                                            | 218               | 200               |
| KRW 160 billion Subordinated debt 2008                                                            | 167               | 157               |
| KRW 136 billion Subordinated debt 2007                                                            | 146               | 133               |
| KRW 104 billion Subordinated debt 2007                                                            | 109               | 102               |
| KRW 40 billion Subordinated debt 2006                                                             | –                 | 40                |
| KRW 30 billion Subordinated debt 2011                                                             | 32                | 29                |
| KRW 27 billion Subordinated debt 2008                                                             | 29                | 27                |
| BWP 50 million Fixed and Floating Rate Subordinated Notes 2015                                    | 8                 | 9                 |
| TZS 8 billion Subordinated Notes 2015                                                             | 6                 | 7                 |
| KRW 3 billion Subordinated debt 2011                                                              | 3                 | 3                 |
| €675 million Floating Rate Notes 2018                                                             | 885               | –                 |
| \$100 million Floating Rate Notes 2018                                                            | 100               | –                 |
| IDR 500 billion Floating Rate Notes 2016                                                          | 24                | –                 |
| PKR 750 million Floating Rate Notes 2008                                                          | 11                | –                 |
| PKR 750 million Floating Rate Notes 2011                                                          | 12                | –                 |
| PKR 1 billion Floating Rate Notes 2015                                                            | 17                | –                 |
| TWD 8 billion Floating Rate Notes 2007                                                            | 246               | –                 |
| TWD 10 billion undated Floating Rate Notes                                                        | 306               | –                 |
| £675 million 5.375 per cent undated step up Subordinated Notes (callable 2020)                    | 1,252             | 1,156             |
|                                                                                                   | <b>10,738</b>     | <b>8,448</b>      |
| <b>Subordinated loan capital – issued by Company</b>                                              |                   |                   |
| Primary Capital Floating Rate Notes:                                                              |                   |                   |
| \$400 million                                                                                     | 400               | 400               |
| \$300 million (Series 2)                                                                          | 300               | 300               |
| \$400 million (Series 3)                                                                          | 400               | 400               |
| \$200 million (Series 4)                                                                          | 200               | 200               |
| £150 million                                                                                      | 294               | 258               |
| <b>Other borrowings – issued by Company</b>                                                       | <b>*367</b>       | <b>*343</b>       |
|                                                                                                   | <b>1,961</b>      | <b>1,901</b>      |
| <b>Total for Group</b>                                                                            | <b>12,699</b>     | <b>10,349</b>     |
| <b>Total for Company</b>                                                                          | <b>1,977</b>      | <b>1,893</b>      |

\* In the balance sheet of the Company the amount recognised is \$383 million (2005: \$335 million) with the difference being the effect of hedge accounting achieved on a Group basis.

## Notes to the Accounts continued

### 36. Subordinated Liabilities and Other Borrowed Funds continued

All Subordinated liabilities described above are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Of total Subordinated liabilities and other borrowings, \$5,118 million is at fixed interest rates (31 December 2005: \$6,151 million).

In March 2006, the Group bought back \$221 million 5.75 per cent Upper Tier 2 and \$108 million 6.25 per cent Lower Tier 2 Subordinated debt.

On 11 May 2006, the bank issued Innovative Tier 1 capital in the form of £300 million Step-up Callable Preferred Securities at a price of 116.801 per cent, as a tap on the £300 million Preferred

Securities issued in May 2001. The two issues were consolidated and formed a single series with effect from 11 May 2006. The Preferred Securities pay an annual coupon of 8.103 per cent and are perpetual, with a call date of 11 May 2016 and at every coupon date thereafter.

On 29 November 2006, the Group issued €675 million Floating Rate Step Up Dated Subordinated Notes due 2018, and \$100 million Floating Rate Step Up Dated Subordinated Notes due 2018.

On 15 December 2006, Permata issued IDR 500 billion Floating Rate Notes, which have a maturity of 10 years with an issuer's call option after five years.

The KRW40 billion Subordinated debt 2006 was redeemed in December 2006.

### 37. Share Capital

The authorised share capital of the Company at 31 December 2006 was \$5,113 million (2005: \$4,857 million) made up of 2,632 million ordinary shares of \$0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of \$5 each and one million non-cumulative redeemable preference share of €1,000 each.

As at 31 December 2006, 7,500 \$5 non-cumulative redeemable preference shares were in issue. The irredeemable preference shares of £1 each were reclassified to other borrowed funds from 1 January 2005 upon adoption of IAS 32.

### Group and Company

|                               | Number of<br>ordinary shares<br>(millions) | Ordinary share<br>capital<br>\$million | Preference<br>share capital<br>\$million | Total<br>\$million |
|-------------------------------|--------------------------------------------|----------------------------------------|------------------------------------------|--------------------|
| At 1 January 2005             | 1,179                                      | 590                                    | 2                                        | 592                |
| Capitalised on scrip dividend | 4                                          | 2                                      | –                                        | 2                  |
| Shares issued                 | 133                                        | 66                                     | –                                        | 66                 |
| At 31 December 2005           | <b>1,316</b>                               | <b>658</b>                             | <b>2</b>                                 | <b>660</b>         |
| Capitalised on scrip dividend | <b>15</b>                                  | <b>7</b>                               | <b>–</b>                                 | <b>7</b>           |
| Shares repurchased            | –                                          | –                                      | (2)                                      | (2)                |
| Shares issued                 | <b>53</b>                                  | <b>27</b>                              | <b>–</b>                                 | <b>27</b>          |
| At 31 December 2006           | <b>1,384</b>                               | <b>692</b>                             | <b>–</b>                                 | <b>692</b>         |

On 12 January 2006, the Company issued 3,401,290 new ordinary shares at an average price of 1301 pence per share representing approximately 0.3 per cent of the Company's existing issued ordinary share capital. The middle market price on 12 January 2006 was 1323 pence. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited.

On 2 October 2006, the Company repurchased the remaining 328,388 8.9 per cent non-cumulative preference shares. The preference shares were repurchased at a premium of \$326 million and were cancelled.

On 4 October 2006, the Company issued 48,500,000 ordinary shares of US\$0.50 each at a placing price of 1375 pence per share representing approximately 3.7 per cent of the Company's existing issued ordinary share capital. The middle market price on 4 October 2006 was 1363 pence. The issue of ordinary shares was used to acquire HIB.

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

On 8 December 2006, the Company issued 7,500 non-cumulative redeemable preference shares of \$5 each at a placing price of \$100,000 each. The shares are redeemable at the option of the Company and have discretionary coupon payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

The holding of Standard Chartered PLC shares for the beneficiaries of the Group's share based award schemes is set out in note 38.

### 38. Reserves

#### Group

|                                           | Share**<br>premium<br>account<br>\$million | Capital<br>reserve<br>\$million | Capital<br>redemption<br>reserve<br>\$million | Merger<br>reserve<br>\$million | Available<br>for sale<br>reserve<br>\$million | Cash flow<br>hedge<br>reserve<br>\$million | Translation<br>reserve<br>\$million | Retained*<br>earnings<br>\$million | Total<br>\$million |
|-------------------------------------------|--------------------------------------------|---------------------------------|-----------------------------------------------|--------------------------------|-----------------------------------------------|--------------------------------------------|-------------------------------------|------------------------------------|--------------------|
| At 1 January 2005                         | 2,835                                      | 5                               | 11                                            | –                              | 73                                            | 42                                         | 96                                  | 5,227                              | 8,289              |
| Recognised income and expenses            | –                                          | –                               | –                                             | –                              | (50)                                          | (62)                                       | (90)                                | 1,865                              | 1,663              |
| Capitalised on scrip dividend             | (2)                                        | –                               | –                                             | –                              | –                                             | –                                          | –                                   | –                                  | (2)                |
| Shares issued, net of expenses            | 201                                        | –                               | –                                             | 1,944                          | –                                             | –                                          | –                                   | –                                  | 2,145              |
| Net own shares adjustment                 | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | (73)                               | (73)               |
| Share option expense and related taxation | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | 123                                | 123                |
| Dividends, net scrip                      | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | (712)                              | (712)              |
| Debt recognition premium                  | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | (211)                              | (211)              |
| At 31 December 2005                       | <b>3,034</b>                               | <b>5</b>                        | <b>11</b>                                     | <b>1,944</b>                   | <b>23</b>                                     | <b>(20)</b>                                | <b>6</b>                            | <b>6,219</b>                       | <b>11,222</b>      |
| Recognised income and expenses            | –                                          | –                               | –                                             | –                              | 387                                           | 71                                         | 672                                 | 2,354                              | 3,484              |
| Capitalised on scrip dividend             | (7)                                        | –                               | –                                             | –                              | –                                             | –                                          | –                                   | –                                  | (7)                |
| Shares issued, net of expenses            | 838                                        | –                               | –                                             | 1,205                          | –                                             | –                                          | –                                   | –                                  | 2,043              |
| Shares repurchased                        | (326)                                      | –                               | 2                                             | –                              | –                                             | –                                          | –                                   | (2)                                | (326)              |
| Net own shares adjustment                 | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | 149                                | 149                |
| Share option expense and related taxation | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | 115                                | 115                |
| Dividends, net scrip                      | –                                          | –                               | –                                             | –                              | –                                             | –                                          | –                                   | (519)                              | (519)              |
| At 31 December 2006                       | <b>3,539</b>                               | <b>5</b>                        | <b>13</b>                                     | <b>3,149</b>                   | <b>410</b>                                    | <b>51</b>                                  | <b>678</b>                          | <b>8,316</b>                       | <b>16,161</b>      |

\* Premises revaluation reserve, which represents revaluations made prior to the adoption of IFRS by the Group on 1 January 2004, has been transferred to retained earnings.

\*\* The share premium account has been restated in 2005 to transfer to the merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

Transaction costs relating to share issues deducted from reserves account total \$20 million (2005: \$25 million).

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2005: \$27 million).

Capital reserves represent the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

Capital redemption reserve represents the repurchase of preference shares.

Available-for-sale reserve is the fair value movement of financial assets classified as available-for-sale. Gains and losses are deferred to this reserve until such time as the underlying asset is sold or matures.

Cash flow hedge reserve is the fair value movement of derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred to this reserve until such time as the underlying hedged item affects profit and loss.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve until such time as the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings are the carried forward recognised income and expenses of the Group plus current period recognised income and expenses less dividend distribution, treasury shares and share option expenses.

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

#### Shares of the Group held for the beneficiaries of the Group's share based payment schemes

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust ("the 1995 trust"), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust ("the 2004 trust") which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trust. As part of these arrangements Group companies fund the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards. All shares have been acquired through the London Stock Exchange.

The 1995 trust has not acquired any shares in the year ended 31 December 2006 (2005: 11,700,000 Standard Chartered PLC shares were acquired from the Company for an aggregate price of \$211 million). The shares are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Performance Share Plan and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 1995 trust held 2,148,874 (2005: 13,631,745) shares, of which all (2005: 11,521,682) have vested unconditionally.

## Notes to the Accounts continued

### 38. Reserves continued

During the current year the 2004 trust has acquired, at market value, 301,952 (2005: 422,659) Standard Chartered PLC shares for an aggregate price of \$9 million (2005: \$8 million), which are held in a pool for the benefit of participants under the Group's deferred bonus plan. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 2004 trust held 311,157 (2005: 409,160) Standard Chartered PLC shares, of which none (2005: 7,333) have vested unconditionally.

Own shares held total 2,460,031 at 31 December 2006 (2005: 14,040,907).

Except as disclosed above, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2006.

#### Company

|                                           | Share*<br>premium<br>account<br>\$million | Capital<br>reserve<br>\$million | Capital<br>redemption<br>reserve<br>\$million | Merger*<br>reserve<br>\$million | Retained<br>earnings<br>\$million | Total<br>\$million |
|-------------------------------------------|-------------------------------------------|---------------------------------|-----------------------------------------------|---------------------------------|-----------------------------------|--------------------|
| At 1 January 2005                         | 2,835                                     | 5                               | 11                                            | –                               | 694                               | 3,545              |
| Recognised income and expenses            | –                                         | –                               | –                                             | –                               | 798                               | 798                |
| Capitalised on scrip dividend             | (2)                                       | –                               | –                                             | –                               | –                                 | (2)                |
| Shares issued, net of expenses            | 201                                       | –                               | –                                             | 1,944                           | –                                 | 2,145              |
| Net own shares adjustment                 | –                                         | –                               | –                                             | –                               | (73)                              | (73)               |
| Share option expense and related taxation | –                                         | –                               | –                                             | –                               | 52                                | 52                 |
| Dividends net scrip                       | –                                         | –                               | –                                             | –                               | (712)                             | (712)              |
| At 31 December 2005                       | <b>3,034</b>                              | <b>5</b>                        | <b>11</b>                                     | <b>1,944</b>                    | <b>759</b>                        | <b>5,753</b>       |
| Recognised income and expenses            | –                                         | –                               | –                                             | –                               | 683                               | 683                |
| Capitalised on scrip dividend             | (7)                                       | –                               | –                                             | –                               | –                                 | (7)                |
| Shares issued, net of expenses            | <b>838</b>                                | –                               | –                                             | <b>1,205</b>                    | –                                 | <b>2,043</b>       |
| Shares repurchased                        | <b>(326)</b>                              | –                               | –                                             | –                               | –                                 | <b>(326)</b>       |
| Net own shares adjustment                 | –                                         | –                               | –                                             | –                               | 149                               | 149                |
| Transfer to Capital Redemption Reserve    | –                                         | –                               | 2                                             | –                               | (2)                               | –                  |
| Share option expense and related taxation | –                                         | –                               | –                                             | –                               | 67                                | 67                 |
| Dividends net scrip                       | –                                         | –                               | –                                             | –                               | (519)                             | (519)              |
| At 31 December 2006                       | <b>3,539</b>                              | <b>5</b>                        | <b>13</b>                                     | <b>3,149</b>                    | <b>1,137</b>                      | <b>7,843</b>       |

\* The share premium account has been restated in 2005 to transfer to the merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

### 39. Minority Interests

|                                                              | £200m<br>2022<br>Step-Up<br>Notes<br>\$million | £300m<br>8.103%<br>Step-Up<br>Callable<br>Perpetual<br>Trust<br>\$million | \$300m<br>7.267%<br>Hybrid<br>Tier-1<br>Securities<br>\$million | Other<br>minority<br>interests<br>\$million | Total<br>\$million |
|--------------------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------|--------------------|
| At 1 January 2005                                            | 396                                            | 598                                                                       | –                                                               | 960                                         | 1,954              |
| Arising on acquisitions                                      | –                                              | –                                                                         | 333                                                             | –                                           | 333                |
| Appropriation in respect of exchange translation             | (43)                                           | (64)                                                                      | –                                                               | (1)                                         | (108)              |
| Other profits attributable to minority interests             | 26                                             | 41                                                                        | 14                                                              | 52                                          | 133                |
| Recognised income and expenses                               | (17)                                           | (23)                                                                      | 14                                                              | 51                                          | 25                 |
| Distributions                                                | (26)                                           | (42)                                                                      | (11)                                                            | (39)                                        | (118)              |
| Reductions                                                   | (353)                                          | (533)                                                                     | –                                                               | (857)                                       | (1,743)            |
| At 31 December 2005                                          | –                                              | –                                                                         | <b>336</b>                                                      | <b>115</b>                                  | <b>451</b>         |
| Arising on acquisitions                                      | –                                              | –                                                                         | –                                                               | 17                                          | 17                 |
| Income/expenses in equity attributable to minority interests | –                                              | –                                                                         | –                                                               | 35                                          | 35                 |
| Other profits attributable to minority interests             | –                                              | –                                                                         | 19                                                              | 57                                          | 76                 |
| Recognised income and expenses                               | –                                              | –                                                                         | 19                                                              | 92                                          | 111                |
| Distributions                                                | –                                              | –                                                                         | (22)                                                            | (33)                                        | (55)               |
| Other increases                                              | –                                              | –                                                                         | –                                                               | 20                                          | 20                 |
| At 31 December 2006                                          | –                                              | –                                                                         | <b>333</b>                                                      | <b>211</b>                                  | <b>544</b>         |

In September 2006, the Group acquired 95.4 per cent of Union and in October 2006, 96.2 per cent of HIB. Union was subsequently amalgamated with the Standard Chartered Bank

branches in Pakistan into Standard Chartered (Pakistan) Limited, increasing the Group's shareholding to 99.0 per cent. Further details are disclosed in note 23 of the financial statements.

#### 40. Share Based Payments

The Group operates a number of share based payment schemes for its directors and employees.

The total charge for the year relating to employee share based payment plans was \$96 million (2005: \$78 million) of which \$67 million (2005: \$64 million) relates to equity settled awards, and \$29 million (2005: \$14 million) relates to cash settled awards. After deferred tax, the total charge was \$93 million (2005: \$68 million).

##### 1994 Executive Share Option Scheme (closed)

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

##### 2000 Executive Share Option Scheme

The 2000 scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. An EPS performance criterion must be met before options can be exercised.

Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can only be exercised if a performance condition is satisfied.

##### 2001 Performance Share Plan

The Performance Share Plan is designed to be an intrinsic part of total remuneration for the Group's executive directors and for a small number of the Group's most senior executives. It is an internationally competitive long-term incentive plan that focuses executives on meeting and exceeding the long-term performance targets of the Group. The performance criteria which need to be met are set out in the Directors' Remuneration Report on pages 61 to 64. Awards of nil price options to acquire shares are granted to the executives and will normally be exercised between three and ten years after the date of grant if the individual is still employed by the Group. There is provision for earlier exercise in certain limited circumstances.

##### 1997/2006 Restricted Share Scheme

The Group operates a discretionary Restricted Share Scheme ("RSS") for high performing and high potential staff at any level of the organisation whom the Group wish to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the RSS is not applicable to executive directors, as it has no performance conditions attached to it. 50 per cent of the award vests two years after the date of grant and the balance after three years. The awards can be exercised within seven years of the grant date. The value of shares awarded in any year to any individual may not exceed two times their base salary.

In addition, the Group operates a Supplementary Restricted Share Scheme which can be used to defer part of an employee's annual bonus in shares. The plan is principally used for employees in the global markets area and is similar to the RSS outlined above except for three important factors: directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit. No awards were made under this scheme in 2005 and 2006, and none are outstanding as at 31 December 2004, 2005 and 2006.

##### 2004 Deferred Bonus Plan

Under the 2004 Deferred Bonus Plan, shares are conditionally awarded instead of all or part of the directors' annual cash bonus. Further details are contained in the Directors' Remuneration Report on page 70.

##### All Employee Sharesave Schemes

No awards have been made under the 1994 UK Sharesave and 1996 International Sharesave schemes since 2003, as these were replaced by the 2004 UK and International Sharesave schemes. Under these Sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the all employee sharesave schemes.

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

## Notes to the Accounts continued

### 40. Share Based Payments continued

#### 1994 Executive Share Option Scheme ("1994 ESOS")

Awards made under this scheme are not subject to the valuation criteria of IFRS 2, as all awards are granted prior to 7 November 2002, and are all vested as at that date.

A reconciliation of option movements over the year to 31 December 2006 and 2005 is shown below:

|                            | 2006          |                                 | 2005          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 1,114,542     | £7.64                           | 2,252,949     | £7.27                           |
| Granted                    | –             | –                               | –             | –                               |
| Lapsed                     | (4,830)       | £7.29                           | (59,250)      | £5.09                           |
| Exercised                  | (750,505)     | £7.39                           | (1,079,157)   | £7.00                           |
| Outstanding at 31 December | 359,207       | £8.18                           | 1,114,542     | £7.64                           |
| Exercisable at 31 December | 359,207       | £8.18                           | 1,114,542     | £7.64                           |

|                         | 2006                            |               |                                             | 2005                            |               |                                             |
|-------------------------|---------------------------------|---------------|---------------------------------------------|---------------------------------|---------------|---------------------------------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining contractual life | Weighted average exercise price | No. of shares | Weighted average remaining contractual life |
| Range of exercise price |                                 |               |                                             |                                 |               |                                             |
| £6.20/£8.88             | £8.18                           | 359,207       | 1.1 years                                   | –                               | –             | –                                           |
| £3.87/£8.88             | –                               | –             | –                                           | £7.64                           | 1,114,542     | 1.9 years                                   |

The intrinsic value of vested 1994 ESOS cash settled awards as at 31 December 2006 was \$0.3 million (2005: \$0.7 million).

#### 2000 Executive Share Option Scheme ("2000 ESOS")

No share awards were granted during 2006.

##### Valuation

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

|                                       | 2005    |         |
|---------------------------------------|---------|---------|
|                                       | 14 June | 9 March |
| Grant date                            |         |         |
| Share price at grant date             | £10.395 | £9.71   |
| Exercise price                        | £10.395 | £9.71   |
| Shares under option as at 31 December | 153,839 | 752,938 |
| Vesting period (years)                | 3       | 3       |
| Expected volatility (%)               | 31.6    | 32.3    |
| Expected option life (years)          | 5       | 5       |
| Risk free rate (%)                    | 4.6     | 4.9     |
| Expected dividends (yield) (%)        | 3.5     | 3.5     |
| Fair value (£)                        | 2.53    | 2.57    |

The expected volatility is based on historical volatility over the last five years or five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of

return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

|                            | 2006          |                                 | 2005          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of Shares | Weighted average exercise price | No. of Shares | Weighted average exercise price |
| Outstanding at 1 January   | 23,634,660    | £8.08                           | 30,707,971    | £8.00                           |
| Granted                    | –             | –                               | 906,777       | £9.83                           |
| Lapsed                     | (204,514)     | £9.77                           | (508,060)     | £7.87                           |
| Exercised                  | (8,455,950)   | £7.52                           | (7,472,028)   | £7.99                           |
| Outstanding at 31 December | 14,974,196    | £8.37                           | 23,634,660    | £8.08                           |
| Exercisable at 31 December | 8,758,519     | £7.63                           | 8,303,114     | £8.21                           |

#### 40. Share Based Payments continued

| Range of exercise price | 2006                            |                   |                                             | 2005                            |               |                                             |
|-------------------------|---------------------------------|-------------------|---------------------------------------------|---------------------------------|---------------|---------------------------------------------|
|                         | Weighted average exercise price | No. of shares     | Weighted average remaining contractual life | Weighted average exercise price | No. of shares | Weighted average remaining contractual life |
| £6.905/£10.395          | <b>£8.37</b>                    | <b>14,974,196</b> | <b>6.2 years</b>                            | —                               | —             | —                                           |
| £6.905/£10.395          | —                               | —                 | —                                           | £8.08                           | 23,634,660    | 7 years                                     |

The intrinsic value of vested 2000 ESOS cash-settled awards as at 31 December 2006 was \$6 million (2005: \$4 million).

The weighted average share price at the time the options were exercised for both the 1994 and 2000 ESOS schemes during 2006 was £14.59 (2005: £11.21).

#### 2001 Performance Share Plan ("2001 PSP")

##### Valuation

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

| Grant Date                            | 2006           |                |                  | 2005         |           |
|---------------------------------------|----------------|----------------|------------------|--------------|-----------|
|                                       | 12 September   | 11 May         | 14 March         | 20 September | 9 March   |
| Share price at grant date             | <b>£13.17</b>  | <b>£14.60</b>  | <b>£14.35</b>    | £11.89       | £9.71     |
| Shares under option as at 31 December | <b>155,219</b> | <b>274,689</b> | <b>1,678,707</b> | 8,410        | 1,488,580 |
| Vesting period (years)                | <b>3</b>       | <b>3</b>       | <b>3</b>         | 3            | 3         |
| Expected dividends (yield) (%)        | <b>3.2</b>     | <b>3.0</b>     | <b>3.0</b>       | 3.5          | 3.7       |
| Fair value (EPS) (£)                  | <b>6.00</b>    | <b>6.67</b>    | <b>6.56</b>      | 5.36         | 4.35      |
| Fair value (TSR) (£)                  | <b>2.60</b>    | <b>2.89</b>    | <b>2.84</b>      | 2.31         | 1.89      |

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant. The EPS and TSR fair value relates to the performance criteria to be satisfied as explained in the Directors' Remuneration Report. The TSR fair value is derived by discounting 50 per cent of the

award which is subject to the TSR condition by the loss of expected dividends over the performance period, and the likelihood of meeting the TSR condition which is calculated by the area under the TSR vesting schedule curve.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

|                            | 2006             |                                 | 2005          |                                 |
|----------------------------|------------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares    | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | <b>3,919,726</b> | —                               | 3,066,957     | —                               |
| Granted                    | <b>2,125,493</b> | —                               | 1,505,589     | —                               |
| Lapsed                     | <b>(101,878)</b> | —                               | (199,379)     | —                               |
| Exercised                  | <b>(966,742)</b> | —                               | (453,441)     | —                               |
| Outstanding at 31 December | <b>4,976,599</b> | —                               | 3,919,726     | —                               |
| Exercisable at 31 December | <b>405,798</b>   | —                               | 390,792       | —                               |

| Range of exercise price | 2006                            |                  |                                             | 2005                            |               |                                             |
|-------------------------|---------------------------------|------------------|---------------------------------------------|---------------------------------|---------------|---------------------------------------------|
|                         | Weighted average exercise price | No. of shares    | Weighted average remaining contractual life | Weighted average exercise price | No. of shares | Weighted average remaining contractual life |
| n/a                     | —                               | <b>4,976,599</b> | <b>8.3 years</b>                            | —                               | 3,919,726     | 8.1 years                                   |

There are no vested 2001 PSP cash settled awards as at 31 December 2005 and 2006.

The weighted average share price at the time the options were exercised during 2006 was £14.69 (2005: £10.05).

## Notes to the Accounts continued

### 40. Share Based Payments continued

#### 1997/2006 Restricted Share Scheme ("1997/2006 RSS")

##### Valuation

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

| Grant date                            | 2006         |        |           | 2005         |         |           |
|---------------------------------------|--------------|--------|-----------|--------------|---------|-----------|
|                                       | 12 September | 11 May | 14 March  | 20 September | 14 June | 9 March   |
| Share price at grant date             | £13.17       | £14.60 | £14.35    | £11.89       | £10.395 | £9.71     |
| Shares under option as at 31 December | 191,162      | 18,630 | 1,420,942 | 427,472      | 36,335  | 2,431,561 |
| Vesting period (years)                | 2/3          | 2/3    | 2/3       | 2/3          | 2/3     | 2/3       |
| Expected dividends (yield) (%)        | 3.2          | 3.0    | 3.0       | 3.5          | 3.5     | 3.5       |
| Fair value (£)                        | 12.00        | 13.34  | 13.12     | 10.72        | 9.55    | 8.92      |

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

A reconciliation of option movements over the year to 31 December 2006 is shown below:

|                            | 2006          |                                 | 2005          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 6,410,044     | –                               | 5,396,020     | –                               |
| Granted                    | 1,691,508     | –                               | 2,993,901     | –                               |
| Lapsed                     | (312,453)     | –                               | (235,377)     | –                               |
| Exercised                  | (1,490,713)   | –                               | (1,744,500)   | –                               |
| Outstanding at 31 December | 6,298,386     | –                               | 6,410,044     | –                               |
| Exercisable at 31 December | 1,330,250     | –                               | 1,613,044     | –                               |

The weighted average share price at the time the options were exercised during 2006 was £14.35 (2005: £10.71).

| Range of exercise price | 2006                            |               |                                             | 2005                            |               |                                             |
|-------------------------|---------------------------------|---------------|---------------------------------------------|---------------------------------|---------------|---------------------------------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining contractual life | Weighted average exercise price | No. of shares | Weighted average remaining contractual life |
| n/a                     | –                               | 6,298,246     | 4.9 years                                   | –                               | 6,410,044     | 4.6 years                                   |

The intrinsic value of vested 1997/2006 RSS cash-settled awards as at 31 December 2006 was \$5 million (2005: \$4 million).

#### 1994/1996 UK and International Sharesave Scheme

Grants made under these schemes which had not vested as at 7 November 2002 are fair valued under IFRS 2.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

|                            | 2006          |                                 | 2005          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of Shares | Weighted average exercise price | No. of Shares | Weighted average exercise price |
| Outstanding at 1 January   | 3,167,779     | £6.17                           | 7,278,112     | £5.90                           |
| Granted                    | –             | –                               | –             | –                               |
| Lapsed                     | (155,845)     | £6.22                           | (597,340)     | £5.92                           |
| Exercised                  | (1,468,150)   | £6.22                           | (3,512,993)   | £5.66                           |
| Outstanding at 31 December | 1,543,784     | £6.12                           | 3,167,779     | £6.17                           |
| Exercisable at 31 December | 462,721       | £6.63                           | 442,038       | £5.85                           |

| Range of exercise price | 2006                            |               |                                             | 2005                            |               |                                             |
|-------------------------|---------------------------------|---------------|---------------------------------------------|---------------------------------|---------------|---------------------------------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining contractual life | Weighted average exercise price | No. of shares | Weighted average remaining contractual life |
| £3.34/£7.23             | £6.12                           | 1,543,784     | 1.2 years                                   | –                               | –             | –                                           |
| £3.34/£7.23             | –                               | –             | –                                           | £6.17                           | 3,167,779     | 1.8 years                                   |

The intrinsic value of vested 1994/1996 UK and International Sharesave cash-settled awards as at 31 December 2006 was \$6 million (2005: \$2 million).

#### 40. Share Based Payments continued

##### 2004 UK and International Sharesave Scheme

###### Valuation

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

|                                       | 2006         |             | 2005         |             |
|---------------------------------------|--------------|-------------|--------------|-------------|
|                                       | 12 September | 8 September | 20 September | 8 September |
| Grant date                            |              |             |              |             |
| Share price at grant date             | £13.17       | £13.03      | £11.89       | £12.25      |
| Exercise price                        | £10.64       | £10.64      | £9.87        | £9.87       |
| Shares under option as at 31 December | 3,761,478    | 269,114     | 5,537,252    | 307,238     |
| Vesting period (years)                | 3/5          | 3/5         | 3/5          | 3/5         |
| Expected volatility (%)               | 20.5/28.9    | 20.5/29.6   | 24.4/31.3    | 24.8/31.5   |
| Expected option life (years)          | 3.33/5.33    | 3.33/5.33   | 3.33/5.33    | 3.33/5.33   |
| Risk free rate (%)                    | 4.9/4.8      | 4.8/4.7     | 4.2          | 4.1         |
| Expected dividends (yield) (%)        | 3.1/3.5      | 3.1/3.5     | 3.7/3.5      | 3.7/3.5     |
| Fair value (£)                        | 3.35/4.07    | 3.31/4.05   | 2.88/3.03    | 2.99/3.77   |

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The

expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividends yield and fair values, the first relates to a three year vesting period and the second to a five year vesting period.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

|                            | 2006          |                                 | 2005          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 7,892,513     | £9.24                           | 2,375,938     | £7.43                           |
| Granted                    | 4,035,972     | £10.64                          | 5,902,540     | £9.87                           |
| Lapsed                     | (756,606)     | £9.07                           | (382,193)     | £7.80                           |
| Exercised                  | (15,968)      | £7.95                           | (3,772)       | £7.43                           |
| Outstanding at 31 December | 11,155,911    | £9.76                           | 7,892,513     | £9.24                           |
| Exercisable at 31 December | —             | —                               | —             | —                               |

| Range of exercise price | 2006                            |               |                                             | 2005                            |               |                                             |
|-------------------------|---------------------------------|---------------|---------------------------------------------|---------------------------------|---------------|---------------------------------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining contractual life | Weighted average exercise price | No. of shares | Weighted average remaining contractual life |
| £7.43/£10.64            | £9.76                           | 11,155,911    | 3.0 years                                   | —                               | —             | —                                           |
| £7.43/£9.87             | —                               | —             | —                                           | £9.24                           | 7,892,513     | 3.6 years                                   |

The weighted average share price at the time the options were exercised for all UK and International Sharesave schemes during 2006 was £13.90 (2005: £11.64).

## Notes to the Accounts continued

### 41. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

|                                                    | Group             |                   | Company           |                   |
|----------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                    | 2006<br>\$million | 2005<br>\$million | 2006<br>\$million | 2005<br>\$million |
| Cash and balances at central banks                 | 7,698             | 8,012             | –                 | –                 |
| Less restricted balances                           | (3,958)           | (4,269)           | –                 | –                 |
| Treasury bills and other eligible bills            | 6,233             | 4,049             | –                 | –                 |
| Loans and advances to banks                        | 16,084            | 17,590            | –                 | –                 |
| Trading securities                                 | 12,104            | 9,844             | –                 | –                 |
| Amounts owed by and due to subsidiary undertakings | –                 | –                 | 2,028             | 1,590             |
| Total                                              | 38,161            | 35,226            | 2,028             | 1,590             |

### 42. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

|            | 2006<br>\$million | 2005*<br>\$million |
|------------|-------------------|--------------------|
| Contracted | 19                | 68                 |

\* Restated to present on a consistent basis.

### 43. Operating Lease Commitments

|                                                              | 2006                  |                        | 2005*                 |                        |
|--------------------------------------------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                                                              | Premises<br>\$million | Equipment<br>\$million | Premises<br>\$million | Equipment<br>\$million |
| Commitments under non-cancellable operating leases expiring: |                       |                        |                       |                        |
| Within one year                                              | 156                   | 3                      | 110                   | 4                      |
| Later than one year and less than five years                 | 358                   | 4                      | 307                   | 3                      |
| After five years                                             | 529                   | –                      | 572                   | –                      |
|                                                              | 1,043                 | 7                      | 989                   | 7                      |

\* Restated to present on a consistent basis.

During the year \$155 million (2005: \$93 million) was recognised as an expense in the income statement in respect of operating leases.

The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2006 are \$17 million (2005: \$17 million).

#### 44. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

The credit equivalent and risk weighted amounts have been calculated in accordance with the Financial Services Authority guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

|                                                                                | 2006                                                 |                                       |                                   | 2005                                                 |                                       |                                   |
|--------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------|-----------------------------------|------------------------------------------------------|---------------------------------------|-----------------------------------|
|                                                                                | Contract or underlying principal amount<br>\$million | Credit equivalent amount<br>\$million | Risk weighted amount<br>\$million | Contract or underlying principal amount<br>\$million | Credit equivalent amount<br>\$million | Risk weighted amount<br>\$million |
| <b>Contingent liabilities*</b>                                                 |                                                      |                                       |                                   |                                                      |                                       |                                   |
| Guarantees and irrevocable letters of credit                                   | 18,344                                               | 12,784                                | 9,398                             | 15,952                                               | 11,106                                | 7,704                             |
| Other contingent liabilities                                                   | 9,046                                                | 7,139                                 | 5,418                             | 6,295                                                | 5,134                                 | 2,995                             |
|                                                                                | <b>27,390</b>                                        | <b>19,923</b>                         | <b>14,816</b>                     | <b>22,247</b>                                        | <b>16,240</b>                         | <b>10,699</b>                     |
| <b>Commitments*</b>                                                            |                                                      |                                       |                                   |                                                      |                                       |                                   |
| Documentary credits and short term trade-related transactions                  | 5,029                                                | 1,006                                 | 845                               | 3,730                                                | 746                                   | 572                               |
| Forward asset purchases and forward deposits placed                            | 31                                                   | 31                                    | 10                                | 141                                                  | 141                                   | 28                                |
| Undrawn formal standby facilities, credit lines and other commitments to lend: |                                                      |                                       |                                   |                                                      |                                       |                                   |
| One year and over                                                              | 14,083                                               | 7,042                                 | 3,693                             | 11,128                                               | 5,564                                 | 3,956                             |
| Less than one year                                                             | 20,543                                               | –                                     | –                                 | 18,690                                               | –                                     | –                                 |
| Unconditionally cancellable                                                    | 29,858                                               | –                                     | –                                 | 28,705                                               | –                                     | –                                 |
|                                                                                | <b>69,544</b>                                        | <b>8,079</b>                          | <b>4,548</b>                      | <b>62,394</b>                                        | <b>6,451</b>                          | <b>4,556</b>                      |

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

#### 45. Repurchase and Reverse Repurchase Agreements

The Group enters into collateralised reverse repurchase and repurchase agreements and securities borrowing and lending transactions. It also receives securities as collateral for commercial lending.

##### Balance sheet assets

|           | 2006<br>Reverse repurchase agreements<br>\$million | 2005<br>Reverse repurchase agreements<br>\$million |
|-----------|----------------------------------------------------|----------------------------------------------------|
| Banks     | 1,359                                              | 1,267                                              |
| Customers | 630                                                | 185                                                |
|           | <b>1,989</b>                                       | <b>1,452</b>                                       |

##### Balance sheet liabilities

|           | 2006<br>Repurchase agreements<br>\$million | 2005<br>Repurchase agreements<br>\$million |
|-----------|--------------------------------------------|--------------------------------------------|
| Banks     | 1,449                                      | 961                                        |
| Customers | 681                                        | 964                                        |
|           | <b>2,130</b>                               | <b>1,925</b>                               |

## Notes to the Accounts continued

### 45. Repurchase and Reverse Repurchase Agreements continued

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

|                                                                                                                                          | 2006<br>\$million | 2005<br>\$million |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Securities and collateral which can be repledged or sold (at fair value)                                                                 | 1,379             | 1,434             |
| Thereof repledged/transferred to others for financing activities or to satisfy commitments under short sale transactions (at fair value) | 866               | 629               |

### 46. Interest Rate Risk

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched, but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. The Group and Company use derivatives to manage effective interest rates whether or not hedge accounting is achieved. In particular, interest rate swaps are used to exchange fixed rates of interest for floating rates of interest.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

|                                                    | 2006                       |                                |                                               |                                           |                                           |                                |                                |                 |
|----------------------------------------------------|----------------------------|--------------------------------|-----------------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------|--------------------------------|-----------------|
|                                                    | Effective interest rates % | Three months or less \$million | Between three months and six months \$million | Between six months and one year \$million | Between one year and five years \$million | More than five years \$million | Non-interest bearing \$million | Total \$million |
| <b>Assets</b>                                      |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Cash and balances at central banks                 | 3.1                        | 2,717                          | 51                                            | –                                         | –                                         | –                              | 4,930                          | 7,698           |
| Derivative financial instruments                   | N/A                        | 13,154                         | –                                             | –                                         | –                                         | –                              | –                              | 13,154          |
| Loans and advances to banks*                       | 5.0                        | 16,017                         | 1,908                                         | 794                                       | 791                                       | 66                             | 1,488                          | 21,064          |
| Loans and advances to customers*                   | 7.1                        | 97,800                         | 11,047                                        | 8,918                                     | 13,058                                    | 9,701                          | –                              | 140,524         |
| Investment securities*                             | 4.7                        | 28,422                         | 7,266                                         | 11,689                                    | 11,144                                    | 2,477                          | 1,670                          | 62,668          |
| Other assets                                       | N/A                        | 1,222                          | –                                             | –                                         | 68                                        | –                              | 19,649                         | 20,939          |
| <b>Total assets</b>                                | <b>6.1</b>                 | <b>159,332</b>                 | <b>20,272</b>                                 | <b>21,401</b>                             | <b>25,061</b>                             | <b>12,244</b>                  | <b>27,737</b>                  | <b>266,047</b>  |
| <b>Liabilities</b>                                 |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Deposits by banks*                                 | 4.4                        | 21,392                         | 2,058                                         | 1,872                                     | 308                                       | 290                            | 2,202                          | 28,122          |
| Customer accounts*                                 | 3.8                        | 115,498                        | 7,886                                         | 7,664                                     | 2,994                                     | 407                            | 14,839                         | 149,288         |
| Derivative financial instruments                   | N/A                        | 13,703                         | –                                             | –                                         | –                                         | –                              | –                              | 13,703          |
| Debt securities in issue*                          | 4.8                        | 14,235                         | 2,437                                         | 5,143                                     | 4,912                                     | 72                             | –                              | 26,799          |
| Other liabilities                                  | N/A                        | 7,262                          | 17                                            | –                                         | –                                         | –                              | 10,760                         | 18,039          |
| Subordinated liabilities and other borrowed funds* | 4.7                        | –                              | –                                             | 1,326                                     | 3,316                                     | 8,057                          | –                              | 12,699          |
| <b>Total liabilities</b>                           | <b>4.0</b>                 | <b>172,090</b>                 | <b>12,398</b>                                 | <b>16,005</b>                             | <b>11,530</b>                             | <b>8,826</b>                   | <b>27,801</b>                  | <b>248,650</b>  |
| Off balance sheet items                            |                            | (14)                           | (199)                                         | 139                                       | 58                                        | 16                             | –                              | –               |
| Interest rate sensitivity gap                      |                            | (12,772)                       | 7,675                                         | 5,535                                     | 13,589                                    | 3,434                          | (64)                           | 17,397          |
| Cumulative gap                                     |                            | (12,772)                       | (5,097)                                       | 438                                       | 14,027                                    | 17,461                         | 17,397                         |                 |

\* Includes balances subject to fixed rates of interest. Financial assets and liabilities with fixed interest total \$74,151 million (2005: \$59,678 million) and \$116,852 million (2005: \$105,385 million) respectively.

Note: Investment securities, Loans and advances to banks, and Loans and advances to customers within notes 46 and 48, include financial assets held at fair value.

#### 46. Interest Rate Risk continued

|                                                   | 2005*                      |                                |                                               |                                           |                                           |                                |                                |                 |
|---------------------------------------------------|----------------------------|--------------------------------|-----------------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------|--------------------------------|-----------------|
|                                                   | Effective interest rates % | Three months or less \$million | Between three months and six months \$million | Between six months and one year \$million | Between one year and five years \$million | More than five years \$million | Non-interest bearing \$million | Total \$million |
| Assets                                            |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Cash and balances at central banks                | 1.2%                       | 841                            | –                                             | –                                         | –                                         | –                              | 7,171                          | 8,012           |
| Derivative financial instruments                  | N/A                        | 9,370                          | –                                             | –                                         | –                                         | –                              | –                              | 9,370           |
| Loans and advances to banks                       | 3.3%                       | 17,997                         | 1,059                                         | 880                                       | 664                                       | 82                             | 2,277                          | 22,959          |
| Loans and advances to customers                   | 6.1%                       | 84,343                         | 8,575                                         | 5,685                                     | 8,351                                     | 5,223                          | –                              | 112,177         |
| Investment securities                             | 4.0%                       | 18,681                         | 12,213                                        | 6,698                                     | 6,011                                     | 1,809                          | 1,140                          | 46,552          |
| Other assets                                      | N/A                        | 894                            | –                                             | –                                         | 87                                        | –                              | 15,045                         | 16,026          |
| Total assets                                      | 5.1%                       | 132,126                        | 21,847                                        | 13,263                                    | 15,113                                    | 7,114                          | 25,633                         | 215,096         |
| Liabilities                                       |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Deposits by banks                                 | 2.9%                       | 13,612                         | 4,293                                         | 690                                       | 441                                       | 16                             | 1,221                          | 20,273          |
| Customer accounts                                 | 2.6%                       | 93,811                         | 6,082                                         | 6,268                                     | 1,564                                     | 141                            | 13,073                         | 120,939         |
| Derivative financial instruments                  | N/A                        | 9,864                          | –                                             | –                                         | –                                         | –                              | –                              | 9,864           |
| Debt securities in issue                          | 3.1%                       | 10,541                         | 6,835                                         | 6,478                                     | 3,065                                     | 495                            | –                              | 27,414          |
| Other liabilities                                 | N/A                        | 3,868                          | –                                             | –                                         | –                                         | –                              | 10,056                         | 13,924          |
| Subordinated liabilities and other borrowed funds | 4.8%                       | –                              | –                                             | 142                                       | 2,345                                     | 7,862                          | –                              | 10,349          |
| Total liabilities                                 | 2.9%                       | 131,696                        | 17,210                                        | 13,578                                    | 7,415                                     | 8,514                          | 24,350                         | 202,763         |
| Off balance sheet items                           |                            | (494)                          | 166                                           | (372)                                     | 700                                       | –                              | –                              | –               |
| Interest rate sensitivity gap                     |                            | (64)                           | 4,803                                         | (687)                                     | 8,398                                     | (1,400)                        | 1,283                          | 12,333          |
| Cumulative gap                                    |                            | (64)                           | 4,739                                         | 4,052                                     | 12,450                                    | 11,050                         | 12,333                         |                 |

\* Restated to present on a consistent basis.

The Company incurs interest rate risk on its subordinated liabilities and other borrowings. \$1,594 million (2005: \$1,558 million) is at floating rates maturing over five years. \$367 million (2005: \$343 million) is fixed rate maturing over five years. The effective yield is 5.8 per cent (2005: 4.8 per cent).

#### 47. Credit Risk

At 31 December 2006, the maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is detailed below. No account has been taken of any collateral held and the maximum exposure to loss is considered to be the instruments' balance sheet carrying amount or, for non-derivative off-balance sheet transactions, their contractual nominal amounts.

|                                                                                    | 2006 \$million | 2005 \$million |
|------------------------------------------------------------------------------------|----------------|----------------|
| Financial assets held at fair value through profit or loss                         | 15,715         | 10,333         |
| Derivative financial instruments                                                   | 13,154         | 9,370          |
| Amounts available for offset*                                                      | (6,425)        | (4,859)        |
|                                                                                    | 6,729          | 4,511          |
| Loans and advances to banks and customers                                          | 159,054        | 133,492        |
| Investment securities                                                              | 49,487         | 37,863         |
| Contingent liabilities                                                             | 27,390         | 22,247         |
| Undrawn irrevocable standby facilities, credit lines and other commitments to lend | 34,626         | 29,818         |
|                                                                                    | 293,001        | 238,264        |

\* Amounts available for offset under master netting arrangements do not meet the criteria under IAS 32 to enable derivative balances to be presented on a net basis in the financial statements.

## Notes to the Accounts continued

### 48. Liquidity Risk

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

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

|                                                   | 2006                           |                                             |                                           |                                |                 |
|---------------------------------------------------|--------------------------------|---------------------------------------------|-------------------------------------------|--------------------------------|-----------------|
|                                                   | Three months or less \$million | Between three months and one year \$million | Between one year and five years \$million | More than five years \$million | Total \$million |
| Assets                                            |                                |                                             |                                           |                                |                 |
| Cash and balances at central banks                | 3,740                          | –                                           | –                                         | 3,958                          | 7,698           |
| Derivative financial instruments                  | 2,710                          | 4,178                                       | 4,190                                     | 2,076                          | 13,154          |
| Loans and advances to banks                       | 16,214                         | 2,305                                       | 2,403                                     | 142                            | 21,064          |
| Loans and advances to customers                   | 44,062                         | 23,590                                      | 28,771                                    | 44,101                         | 140,524         |
| Investment securities                             | 19,311                         | 20,141                                      | 18,207                                    | 5,009                          | 62,668          |
| Other assets                                      | 1,316                          | 509                                         | 789                                       | 18,325                         | 20,939          |
| Total assets                                      | 87,353                         | 50,723                                      | 54,360                                    | 73,611                         | 266,047         |
| Liabilities                                       |                                |                                             |                                           |                                |                 |
| Deposits by banks                                 | 24,109                         | 3,360                                       | 621                                       | 32                             | 28,122          |
| Customer accounts                                 | 125,790                        | 19,061                                      | 3,233                                     | 1,204                          | 149,288         |
| Derivative financial instruments                  | 2,766                          | 5,278                                       | 4,006                                     | 1,653                          | 13,703          |
| Debt securities in issue                          | 8,382                          | 9,216                                       | 8,231                                     | 970                            | 26,799          |
| Other liabilities                                 | 2,533                          | 523                                         | 887                                       | 14,096                         | 18,039          |
| Subordinated liabilities and other borrowed funds | –                              | 501                                         | 2,440                                     | 9,758                          | 12,699          |
| Total liabilities                                 | 163,580                        | 37,939                                      | 19,418                                    | 27,713                         | 248,650         |
| Net liquidity gap                                 | (76,227)                       | 12,784                                      | 34,942                                    | 45,898                         | 17,397          |

|                                                   | 2005                           |                                             |                                           |                                |                 |
|---------------------------------------------------|--------------------------------|---------------------------------------------|-------------------------------------------|--------------------------------|-----------------|
|                                                   | Three months or less \$million | Between three months and one year \$million | Between one year and five years \$million | More than five years \$million | Total \$million |
| Assets                                            |                                |                                             |                                           |                                |                 |
| Cash and balances at central banks                | 4,372                          | –                                           | 23                                        | 3,617                          | 8,012           |
| Derivative financial instruments                  | 3,668                          | 2,055                                       | 1,960                                     | 1,687                          | 9,370           |
| Loans and advances to banks                       | 18,090                         | 2,623                                       | 2,164                                     | 82                             | 22,959          |
| Loans and advances to customers                   | 31,770                         | 20,303                                      | 23,196                                    | 36,908                         | 112,177         |
| Investment securities                             | 14,764                         | 13,818                                      | 13,177                                    | 4,793                          | 46,552          |
| Other assets                                      | 2,295                          | 360                                         | 690                                       | 12,681                         | 16,026          |
| Total assets                                      | 74,959                         | 39,159                                      | 41,210                                    | 59,768                         | 215,096         |
| Liabilities                                       |                                |                                             |                                           |                                |                 |
| Deposits by banks                                 | 16,597                         | 2,740                                       | 879                                       | 57                             | 20,273          |
| Customer accounts                                 | 103,289                        | 14,451                                      | 2,371                                     | 828                            | 120,939         |
| Derivative financial instruments                  | 4,290                          | 2,365                                       | 2,810                                     | 399                            | 9,864           |
| Debt securities in issue                          | 7,246                          | 14,168                                      | 5,064                                     | 936                            | 27,414          |
| Other liabilities                                 | 1,919                          | 587                                         | 732                                       | 10,686                         | 13,924          |
| Subordinated liabilities and other borrowed funds | –                              | –                                           | 2,741                                     | 7,608                          | 10,349          |
| Total liabilities                                 | 133,341                        | 34,311                                      | 14,597                                    | 20,514                         | 202,763         |
| Net liquidity gap                                 | (58,382)                       | 4,848                                       | 26,613                                    | 39,254                         | 12,333          |

The Company has financial liabilities of \$1,977 million (2005: \$1,893 million) maturing in five years or more.

#### 49. Currency Risk

The following tables show the extent of the Group's exposure to foreign currency risk (which is principally structured) at 31 December 2006.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

|                   | 2006 (\$million) |           |            |                  |                   |              |               |                  |
|-------------------|------------------|-----------|------------|------------------|-------------------|--------------|---------------|------------------|
|                   | US dollar        | HK dollar | Korean won | Singapore dollar | Malaysian ringgit | Indian rupee | British pound | Other currencies |
| Total assets      | 57,987           | 37,102    | 61,844     | 16,000           | 10,503            | 10,104       | 9,737         | 62,770           |
| Total liabilities | 57,215           | 34,062    | 56,754     | 14,838           | 9,837             | 9,099        | 9,573         | 57,272           |
| Net position      | 772              | 3,040     | 5,090      | 1,162            | 666               | 1,005        | 164           | 5,498            |

|                   | 2005 (\$million) |           |            |                  |                   |              |               |                  |
|-------------------|------------------|-----------|------------|------------------|-------------------|--------------|---------------|------------------|
|                   | US dollar        | HK dollar | Korean won | Singapore dollar | Malaysian ringgit | Indian rupee | British pound | Other currencies |
| Total assets      | 52,970           | 31,890    | 55,801     | 13,801           | 7,880             | 8,535        | 6,606         | 37,613           |
| Total liabilities | 52,780           | 28,902    | 51,689     | 12,691           | 7,324             | 7,416        | 6,837         | 35,124           |
| Net position      | 190              | 2,988     | 4,112      | 1,110            | 556               | 1,119        | (231)         | 2,489            |

The Company's assets and liabilities are predominantly in US dollars. It has assets of \$732 million (2005: \$254 million) and liabilities of \$738 million (2005: \$282 million) other than US dollars.

The Group's main operations in non-US dollar units were Asia, Africa, India and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore

include Hong Kong dollar, Malaysian ringgit, Singapore dollar, Indian rupee and British pound. The Group prepares its consolidated financial statements in US dollars, and the Group's equity is affected by movements in the exchange rates between functional currencies and US dollars.

The Risk Review on pages 34 to 48 explains the risk management with respect to the Group's hedging policies.

## Notes to the Accounts continued

### 50. Fair Value of Financial Assets and Liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

|                                                   | 2006                     |                         | 2005                     |                         |
|---------------------------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
|                                                   | Book amount<br>\$million | Fair value<br>\$million | Book amount<br>\$million | Fair value<br>\$million |
| <b>Assets</b>                                     |                          |                         |                          |                         |
| Cash and balances at central banks                | 7,698                    | 7,698                   | 8,012                    | 8,012                   |
| Loans and advances to banks                       | 19,724                   | 19,727                  | 21,671                   | 21,671                  |
| Loans and advances to customers                   | 139,330                  | 139,677                 | 111,686                  | 111,863                 |
| Investment securities                             | 2,786                    | 2,754                   | 1,479                    | 1,470                   |
| <b>Liabilities</b>                                |                          |                         |                          |                         |
| Deposits by banks                                 | 26,233                   | 26,184                  | 18,834                   | 18,834                  |
| Customer accounts                                 | 147,382                  | 147,492                 | 119,931                  | 119,922                 |
| Debt securities in issue                          | 23,514                   | 23,518                  | 25,913                   | 25,883                  |
| Subordinated liabilities and other borrowed funds | 12,699                   | 12,877                  | 10,349                   | 10,543                  |

The following sets out the Group's basis of establishing fair values of the financial instruments shown above and those financial assets classified as available-for-sale and financial assets and liabilities held at fair value through profit and loss as disclosed within notes 13, 16, 17 and 21. The Group's basis for establishing the fair value of financial assets and liabilities held at fair value through profit or loss and of derivatives is set out in note 1.

#### Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

#### Loans and advances to banks

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money-market rates for debts with a similar credit risk and remaining maturity.

#### Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

#### Investment securities

Investment securities with observable market prices, including debt and equity securities, are fair valued using that information. Equity instruments held that do not have observable market data are presented at cost. Debt securities that do not have observable market data are fair valued by either discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit, maturity and yield characteristics.

#### Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

#### Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

## 51. Market Risk

### Trading book

|                       | 2006              |                |               |                  | 2005              |                |               |                  |
|-----------------------|-------------------|----------------|---------------|------------------|-------------------|----------------|---------------|------------------|
|                       | Average \$million | High \$million | Low \$million | Actual \$million | Average \$million | High \$million | Low \$million | Actual \$million |
| Daily value at risk:  |                   |                |               |                  |                   |                |               |                  |
| Interest rate risk    | 3.5               | 5.3            | 2.5           | 3.9              | 4.0               | 5.5            | 3.1           | 3.9              |
| Foreign exchange risk | 2.6               | 4.1            | 1.4           | 1.5              | 1.5               | 2.8            | 1.0           | 1.1              |
| Total                 | 4.3               | 5.6            | 3.1           | 4.0              | 4.3               | 5.9            | 3.3           | 3.9              |

This note should be read in conjunction with the market risk section of the Risk Review on page 46 which explains the Group's market risk management.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group Trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. The highest and lowest VaR are independent and could have occurred on different days.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year and involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic

data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the GRC.

## 52. Restatement of Prior Periods

### Segmental analysis

The Group has refined its method of charging for and allocating capital and, as a consequence, the segmental result for the year ended 31 December 2005 has been restated. There has been no effect on the Group's total reported numbers but the effect on the business and geographic segments is set out below.

|                                         | 2005                       |                             |                                         |                 |
|-----------------------------------------|----------------------------|-----------------------------|-----------------------------------------|-----------------|
|                                         | Consumer Banking \$million | Wholesale Banking \$million | Corporate items not allocated \$million | Total \$million |
| Operating income as previously reported | 3,807                      | 3,054                       | –                                       | 6,861           |
| Restatement                             | (5)                        | 5                           | –                                       | –               |
| Operating income as restated            | 3,802                      | 3,059                       | –                                       | 6,861           |

|                                         | 2005                |                     |                    |                 |                              |                 |                                      |                  |                                  |                 |
|-----------------------------------------|---------------------|---------------------|--------------------|-----------------|------------------------------|-----------------|--------------------------------------|------------------|----------------------------------|-----------------|
|                                         | Asia Pacific        |                     |                    |                 |                              | Americas        |                                      |                  |                                  | Total \$million |
|                                         | Hong Kong \$million | Singapore \$million | Malaysia \$million | Korea \$million | Other Asia Pacific \$million | India \$million | Middle East & Other S Asia \$million | Africa \$million | UK & Group Head Office \$million |                 |
| Operating income as previously reported | 1,512               | 510                 | 333                | 954             | 1,054                        | 590             | 808                                  | 551              | 549                              | 6,861           |
| Restatement                             | (28)                | 4                   | 2                  | 3               | 3                            | 3               | 4                                    | 2                | 7                                | –               |
| Operating income as restated            | 1,484               | 514                 | 335                | 957             | 1,057                        | 593             | 812                                  | 553              | 556                              | 6,861           |

## Notes to the Accounts continued

### 53. Related Party Transactions

#### Directors and Officers

##### Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 61 to 73.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises members of the Group Management Committee, which includes all executive directors.

|                                           | 2006<br>\$million | 2005<br>\$million |
|-------------------------------------------|-------------------|-------------------|
| Salaries, allowances and benefits in kind | 14                | 13                |
| Pension contributions                     | 5                 | 1                 |
| Bonuses paid or receivable                | 17                | 17                |
| Share based payments                      | 16                | 12                |
|                                           | 52                | 43                |

##### Transactions with directors, officers and others

At 31 December 2006, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the HK Listing Rules about loans to directors and officers were as follows:

|           | 2006   |       | 2005   |       |
|-----------|--------|-------|--------|-------|
|           | Number | \$000 | Number | \$000 |
| Directors | –      | –     | 2      | 22    |
| Officers* | 2      | 203   | 2      | 261   |

\* For this disclosure, the term 'officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the company secretary.

As at 31 December 2006, Standard Chartered Bank had created a charge over \$6 million of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

Other than as disclosed in this Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

#### Joint ventures

During 2006 the Group made an additional investment in PT Bank Permata Tbk as disclosed in note 22 and has loans and advances from PT Bank Permata Tbk totalling \$8 million at 31 December 2006 (2005: \$28 million).

#### Associates

During 2006 the Group acquired interests in First Africa Holdings Limited and Flemings Family & Partners Limited as disclosed in note 22.

During 2005, the Group contributed \$128 million to the establishment of China Bohai Bank Limited as disclosed in note 22. As at 31 December 2006 the Group has loans to China Bohai Bank Limited of \$54 million.

On 30 June 2006 the Group sold a loan portfolio to China Bohai Bank Limited at net book value for a cash consideration of \$92 million.

#### Company

The Company has received \$85 million of interest income from Standard Chartered Bank. The Company issues debt externally and lends the proceeds to Group companies. At 31 December 2006 it has loans to and debt instruments issued by Standard Chartered Bank of \$3,180 million (2005: \$1,796 million), loans of \$nil million (2005: \$40 million) to Standard Chartered Holdings Limited and loans of \$1 million (2005: \$3 million) to other subsidiaries.

At 31 December 2006, the Company held an amount of \$1,151 million owed to Standard Chartered Holdings Limited (2005: \$nil million). This amount is repayable on demand and is non-interest bearing.

In 2005 the Company licensed intellectual property rights related to the Company's main brands to an indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited. At the year end \$1,362 million (2005: \$1,453 million) has been included as deferred income in the Company balance sheet in relation to this, with amortisation recognised as income by the Company.

During 2006 Standard Chartered Bank redeemed \$1 billion of preference shares held by the Company, which in turn purchased \$1,901 million of ordinary shares issued by Standard Chartered Holdings Limited.

The Company has an agreement with Standard Chartered Bank that in the event of the Bank defaulting on its debt coupon interest payments, the Company would grant the option to the Bank's debt holders to receive shares issued by the Company, as settlement for non-payment of the coupon interest.

### 54. Post Balance Sheet Events

On 26 January 2007, the Group announced the sale of its mutual funds manufacturing business in India to a subsidiary of UBS for a total cash consideration of approximately \$120 million. The

transaction is expected to complete in the second half of 2007, subject to regulatory approvals.

## 55. Significant Accounting Estimates and Judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgements in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes.

### Loan loss provisioning

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

### Goodwill impairment

An annual assessment is made, as set out in note 24, as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement.

### Acquired intangible assets

Acquired intangible assets are those that derive their value from contractual customer relationships or that can be separated and sold, and are amortised over their estimated useful lives. They comprise customer relationships, core deposits, brands and acquired licences. The valuation and estimated useful lives of customer relationships, core deposits and brands is dependent on a number of assumptions and judgements, such as expected cash flows, customer attrition, royalty rates and applicable costs, variations in which could produce different values and/or useful lives.

For example, if the royalty rates were increased by one per cent per annum (or decreased by one per cent per annum) the value of the brand names acquired in the acquisitions of Union and Hsinchu in 2006 would increase by approximately \$18 million

(or decrease by \$19 million). Likewise, if the attrition rates were increased by one per cent per quarter (or decreased by one per cent per quarter) the value of the core deposits acquired in the acquisitions of Union and Hsinchu in 2006 would decrease by approximately \$20 million (or increase by approximately \$18 million).

Acquired licences are valued at their purchase price and amortised over the period of the licence.

### Pensions

Actuarial assumptions are made in valuing future defined benefit pension obligations as set out in note 35 and are updated periodically. The principal assumptions relate to the rate of inflation and the discount rate. The assumed rate of inflation affects the rate at which salaries grow and therefore the size of the pensions that employees receive on retirement. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that these assumptions will continue in the future. For example, if the discount rate for the UK fund increased by one per cent, the liability would reduce by approximately \$63 million, and vice versa.

### Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

### Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

### Share based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models – which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life – and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense. For example, if the volatility assumption was increased by five per cent (or decreased by five per cent), the fair values for options granted under the Sharesave schemes in 2006 would increase by approximately £0.34 (or decrease by £0.32).

## Notes to the Accounts continued

### 56. Recently Issued Accounting Pronouncements

The following pronouncements were issued as at 31 December 2006 but have effective dates for periods beginning after 31 December 2006. The use of IFRSs and certain IFRIC Interpretations that have yet to be endorsed by the European Union is not permitted. Those IFRSs and IFRIC Interpretations listed below that have been endorsed by the European Union,

and whose use is therefore permitted, have not been applied in preparing these financial statements. The full impact of these IFRSs and IFRIC Interpretations is currently being assessed by the Group; none of these pronouncements are expected to result in any material adjustments to the financial statements.

| Pronouncement                                                                                                    | Description of impact                                                                                                                                                                                                                                                                                                           | Latest effective date for the Group |
|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| IFRS 7 <i>Financial Instruments: Disclosures</i>                                                                 | IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and consolidates the current financial instruments disclosures together with additional, more detailed qualitative and quantitative disclosures about risks arising from financial instruments.                  | 1 January 2007                      |
| Amendment to IAS 1 <i>Presentation of Financial Statements – Capital Disclosures</i>                             | This amendment introduces additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and compliance with capital requirements.                                                                                                          | 1 January 2007                      |
| IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i> | IFRIC 7 contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency.                                                                                                                                    | 1 January 2007                      |
| IFRIC 8 <i>Scope of IFRS 2</i>                                                                                   | IFRIC 8 clarifies the scope of IFRS 2 for situations where the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred.                                                                                                                                 | 1 January 2007                      |
| IFRIC 9 <i>Reassessment of Embedded Derivatives</i>                                                              | Following initial recognition, subsequent reassessment of whether an embedded derivative should be separated or not is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. | 1 January 2007                      |
| IFRIC 10 <i>Interim Financial Reporting and Impairment*</i>                                                      | Impairment losses recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost cannot be reversed.                                                                                                                                       | 1 January 2007                      |
| IFRIC 11 <i>IFRS 2: Group and Treasury Share Transactions*</i>                                                   | IFRIC 11 clarifies the treatment in the subsidiary's accounts for share awards made by the parent to the employees of a subsidiary.                                                                                                                                                                                             | 1 January 2008**                    |
| IFRS 8 <i>Operating Segments*</i>                                                                                | IFRS 8 supersedes IAS 14 'Segment Reporting' and requires the reporting of operating segments on the same basis as is used internally for evaluating performance.                                                                                                                                                               | 1 January 2009**                    |

\* This IFRS or IFRIC Interpretation has not yet been endorsed by the European Union.

The Group has not yet made a final decision as to whether it will apply in the 2007 financial statements those pronouncements marked (\*\*) in the table above.

### 57. UK and Hong Kong Accounting Requirements

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

On 1 January 2005, the Group converted from UK GAAP to IFRS adopted for use by the EU. The consolidated financial

statements for the Group for the year ended 31 December 2006, including 2005 comparatives, have been prepared accordingly. There are no material differences in accounting practices between IFRS and Hong Kong Financial Reporting Standards.

## Supplementary Financial Information

### Average Balance Sheets and Yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2006 and 31 December 2005. For the purpose of the following table, average balances have generally been determined on the basis of daily balances, except for certain

categories, for which balances have been determined less frequently.

The Company does not believe that the information presented in this table would be significantly different had such balances been determined on a daily basis.

|                                                                         | 2006                                           |                                            |                           |               |
|-------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------|---------------------------|---------------|
|                                                                         | Average non interest earning balance \$million | Average interest earning balance \$million | Interest income \$million | Gross yield % |
| <b>Assets</b>                                                           |                                                |                                            |                           |               |
| Cash and balances at central banks                                      | 4,736                                          | 959                                        | 29                        | 3.0           |
| Gross loans and advances to banks                                       | 1,715                                          | 23,528                                     | 1,177                     | 5.0           |
| Gross loans and advances to customers                                   | 308                                            | 128,278                                    | 9,049                     | 7.1           |
| Impairment provisions against loans and advances to banks and customers | (1,723)                                        | –                                          | –                         | –             |
| Investment securities                                                   | 628                                            | 58,721                                     | 2,732                     | 4.7           |
| Property, plant and equipment and intangible assets                     | 6,610                                          | –                                          | –                         | –             |
| Prepayments, accrued income and other assets                            | 26,186                                         | –                                          | –                         | –             |
| <b>Total average assets</b>                                             | <b>38,460</b>                                  | <b>211,486</b>                             | <b>12,987</b>             | <b>6.1</b>    |

|                                                                         | 2005                                           |                                            |                           |               |
|-------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------|---------------------------|---------------|
|                                                                         | Average non interest earning balance \$million | Average interest earning balance \$million | Interest income \$million | Gross yield % |
| <b>Assets</b>                                                           |                                                |                                            |                           |               |
| Cash and balances at central banks                                      | 4,240                                          | 611                                        | 8                         | 1.3           |
| Gross loans and advances to banks                                       | 560                                            | 25,510                                     | 852                       | 3.3           |
| Gross loans and advances to customers                                   | 754                                            | 101,310                                    | 6,151                     | 6.1           |
| Impairment provisions against loans and advances to banks and customers | (1,700)                                        | –                                          | –                         | –             |
| Investment securities                                                   | 671                                            | 43,191                                     | 1,739                     | 4.0           |
| Property, plant and equipment and intangible assets                     | 4,990                                          | –                                          | –                         | –             |
| Prepayments, accrued income and other assets                            | 20,474                                         | –                                          | –                         | –             |
| <b>Total average assets</b>                                             | <b>29,989</b>                                  | <b>170,662</b>                             | <b>8,750</b>              | <b>5.1</b>    |

## Supplementary Financial Information continued

### Average Balance Sheets and Yield continued

|                                                   | 2006                                           |                                            |                            |             |
|---------------------------------------------------|------------------------------------------------|--------------------------------------------|----------------------------|-------------|
|                                                   | Average non-interest bearing balance \$million | Average interest bearing balance \$million | Interest expense \$million | Rate paid % |
| <b>Liabilities</b>                                |                                                |                                            |                            |             |
| Non-interest bearing current and demand accounts  | 13,607                                         | –                                          | –                          | –           |
| Interest bearing current and demand accounts      | –                                              | 44,470                                     | 982                        | 2.2         |
| Savings deposits                                  | 135                                            | 8,423                                      | 164                        | 1.9         |
| Time and other deposits                           | 632                                            | 98,501                                     | 4,684                      | 4.8         |
| Debt securities in issue                          | 2,326                                          | 24,610                                     | 1,186                      | 4.8         |
| Accruals, deferred income and other liabilities   | 31,238                                         | –                                          | –                          | –           |
| Subordinated liabilities and other borrowed funds | –                                              | 12,711                                     | 643                        | 5.1         |
| Minority interests                                | 420                                            | –                                          | –                          | –           |
| Shareholders' funds                               | 14,369                                         | –                                          | –                          | –           |
| Total average liabilities and shareholders' funds | 62,727                                         | 188,715                                    | 7,659                      | 4.1         |
| Net yield                                         |                                                |                                            |                            | 2.1         |
| Net interest margin                               |                                                |                                            |                            | 2.5         |

|                                                   | 2005                                           |                                            |                            |             |
|---------------------------------------------------|------------------------------------------------|--------------------------------------------|----------------------------|-------------|
|                                                   | Average non-interest bearing balance \$million | Average interest bearing balance \$million | Interest expense \$million | Rate paid % |
| <b>Liabilities</b>                                |                                                |                                            |                            |             |
| Non-interest bearing current and demand accounts  | 12,976                                         | –                                          | –                          | –           |
| Interest bearing current and demand accounts      | –                                              | 32,460                                     | 516                        | 1.6         |
| Savings deposits                                  | 123                                            | 7,400                                      | 97                         | 1.3         |
| Time and other deposits                           | 859                                            | 78,199                                     | 2,577                      | 3.3         |
| Debt securities in issue                          | (109)                                          | 22,504                                     | 703                        | 3.1         |
| Accruals, deferred income and other liabilities   | 23,881                                         | –                                          | –                          | –           |
| Subordinated liabilities and other borrowed funds | –                                              | 10,802                                     | 522                        | 4.8         |
| Minority interests                                | 227                                            | –                                          | –                          | –           |
| Shareholders' funds                               | 9,956                                          | –                                          | –                          | –           |
| Total average liabilities and shareholders' funds | 47,913                                         | 151,365                                    | 4,415                      | 2.9         |
| Net yield                                         |                                                |                                            |                            | 2.2         |
| Net interest margin                               |                                                |                                            |                            | 2.5         |

### Volume and Price Variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the periods presented. Volume and rate variances have been determined

based on movements in average balances and average exchange rates over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to changes in volume.

|                                                   | 2006 versus 2005                           |                   |                                                            |
|---------------------------------------------------|--------------------------------------------|-------------------|------------------------------------------------------------|
|                                                   | Increase/(decrease)<br>in interest due to: |                   | Net<br>increase/<br>(decrease)<br>in interest<br>\$million |
|                                                   | Volume<br>\$million                        | Rate<br>\$million |                                                            |
| Interest earning assets                           |                                            |                   |                                                            |
| Cash and unrestricted balances at central banks   | 11                                         | 10                | 21                                                         |
| Loans and advances to banks                       | (99)                                       | 424               | 325                                                        |
| Loans and advances to customers                   | 1,893                                      | 1,006             | 2,899                                                      |
| Investment securities                             | 724                                        | 268               | 992                                                        |
| Total interest earning assets                     | 2,529                                      | 1,708             | 4,237                                                      |
| Interest bearing liabilities                      |                                            |                   |                                                            |
| Subordinated liabilities and other borrowed funds | 92                                         | 28                | 120                                                        |
| Interest bearing current and demand accounts      | 288                                        | 125               | 413                                                        |
| Savings deposits                                  | 20                                         | 47                | 67                                                         |
| Time and other deposits                           | 843                                        | 1,318             | 2,161                                                      |
| Debt securities in issue                          | 101                                        | 382               | 483                                                        |
| Total interest bearing liabilities                | 1,344                                      | 1,900             | 3,244                                                      |

|                                                   | 2005 versus 2004                        |                | Net increase/ (decrease) in interest \$million |
|---------------------------------------------------|-----------------------------------------|----------------|------------------------------------------------|
|                                                   | Increase/(decrease) in interest due to: |                |                                                |
|                                                   | Volume \$million                        | Rate \$million |                                                |
| Interest earning assets                           |                                         |                |                                                |
| Cash and unrestricted balances at central banks   | 5                                       | –              | 5                                              |
| Treasury bills and other eligible bills           | 232                                     | (17)           | 215                                            |
| Loans and advances to banks                       | 221                                     | 140            | 361                                            |
| Loans and advances to customers                   | 2,078                                   | 510            | 2,588                                          |
| Investment securities                             | 47                                      | 222            | 269                                            |
| Total interest earning assets                     | 2,583                                   | 855            | 3,438                                          |
| Interest bearing liabilities                      |                                         |                |                                                |
| Subordinated liabilities and other borrowed funds | 231                                     | (72)           | 159                                            |
| Interest bearing current and demand accounts      | 100                                     | 225            | 325                                            |
| Savings deposits                                  | 24                                      | 5              | 29                                             |
| Time and other deposits                           | 686                                     | 562            | 1,248                                          |
| Debt securities in issue                          | 350                                     | 174            | 524                                            |
| Total interest bearing liabilities                | 1,391                                   | 894            | 2,285                                          |

## Supplementary Financial Information continued

### Continuing Connected Transactions

As noted in the Directors' Report on page 54 the Group is required to include in this Annual Report information regarding certain transactions with Temasek.

During the period from 20 July 2006 to 31 December 2006, members of the Group have entered into the following non-exempt continuing connected transactions (as defined by

reference to the HK Listing Rules) with Temasek or its associates in the ordinary and usual course of its business and on normal commercial terms (and with reference to prevailing market rates as applicable) or in accordance with the practice commonly adopted in the market (where applicable). Additional details are provided on page 54 of the Report of the Directors.

| Transaction Category                                      | Notes | 20 July 2006 – 31 December 2006*                                        |                                                                                                  |                                                |                                                                        |
|-----------------------------------------------------------|-------|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------------------------------------------------|
|                                                           |       | Aggregate notional value/ principal amounts during the period \$million | Notional value of outstanding transactions or principal amounts as at 31 December 2006 \$million | Total number of transactions during the period | Total number of Temasek associates with whom transactions were entered |
| Foreign exchange                                          | i     | 15,916                                                                  | 1,119                                                                                            | 2,650                                          | 44                                                                     |
| Derivatives                                               | ii    | 8,827                                                                   | 2,555                                                                                            | 755                                            | 16                                                                     |
| Capital markets dealing                                   | iii   | 709                                                                     | –                                                                                                | 125                                            | 13                                                                     |
| Financial assistance by non-banking licensed subsidiaries | iv    | 14                                                                      | 14                                                                                               | 1                                              | 1                                                                      |

| Transaction Category            | Notes | 20 July 2006 – 31 December 2006*         |                                                                        |
|---------------------------------|-------|------------------------------------------|------------------------------------------------------------------------|
|                                 |       | Gross fee revenue to the Group \$million | Total number of Temasek associates with whom transactions were entered |
| Securities services             | v     | 1.8                                      | 13                                                                     |
| Cash management services        | vi    | 1.2                                      | 93                                                                     |
| Trade services                  | vii   | 0.5                                      | 19                                                                     |
| Advisory and arranging services | viii  | 0.2                                      | 2                                                                      |

\* This data reflects transactions with Temasek or its associates (as defined by the HK Listing Rules) which the Group was able to identify within the extensive Temasek group of companies as at 15 December 2006.

- i Foreign Exchange includes spot, forward and foreign exchange swap transactions.
- ii Derivatives includes over-the-counter derivatives (including swaps, forwards, options and combinations thereof) on currencies, interest rates, commodities, credit risk, bonds, equities and any other classes of underlying prices, rates, indices or instruments.
- iii Capital Markets Dealing includes sales, purchases and participations of securities, loans and other financial instruments.
- iv Financial Assistance by non-banking subsidiaries includes the granting of credit, lending money, providing security for or guaranteeing a loan and transactions of a similar nature or directly related to the same, by members of the Group which are not licensed as banking companies which would otherwise have allowed them to benefit from the exemption for such transactions as is available to licensed banking companies under the Hong Kong Listing Rules.
- v Securities Services includes custody, escrow agency, receiving bank, trustee, transfer agency, paying agency and funds administration services, derivatives clearing services and facilities for custody clients to lend their securities.
- vi Cash Management Services includes account services (payments and collections), liquidity management services and clearing services.
- vii Trade Services includes trade services not involving credit exposure, such as export bills collection, advising of letters of credit, document preparation, processing and checking services and safekeeping of documents.
- viii Advisory and Arranging Services includes corporate finance advisory services, arranging and advising on loans from third party lenders and public and private placements of securities (where the Group does not participate as lender, underwriter or subscriber).

## Five Year Summary

|                                                                                | 2006<br>\$million | 2005<br>\$million | *2004<br>\$million | **2003<br>\$million | **2002<br>\$million |
|--------------------------------------------------------------------------------|-------------------|-------------------|--------------------|---------------------|---------------------|
| Operating profit before impairment losses and taxation                         | <b>3,824</b>      | 3,050             | 2,533              | 2,097               | 1,982               |
| Impairment losses on loans and advances and other credit risk provisions       | <b>(629)</b>      | (319)             | (214)              | (536)               | (712)               |
| Other impairment                                                               | <b>(15)</b>       | (50)              | (68)               | (11)                | (8)                 |
| Profit before taxation                                                         | <b>3,178</b>      | 2,681             | 2,251              | 1,550               | 1,262               |
| Profit attributable to shareholders                                            | <b>2,278</b>      | 1,946             | 1,578              | 1,024               | 844                 |
| Loans and advances to banks                                                    | <b>19,724</b>     | 21,701            | 16,687             | 13,354              | 16,001              |
| Loans and advances to customers                                                | <b>139,330</b>    | 111,791           | 72,019             | 59,744              | 57,009              |
| Total assets                                                                   | <b>266,047</b>    | 215,096           | 147,124            | 120,202             | 112,953             |
| Deposits by banks                                                              | <b>26,233</b>     | 18,834            | 15,162             | 10,924              | 10,850              |
| Customer accounts                                                              | <b>147,382</b>    | 119,931           | 85,093             | 73,767              | 71,626              |
| Shareholders' equity                                                           | <b>16,853</b>     | 11,882            | 9,105              | 7,529               | 7,270               |
| Total capital resources <sup>1</sup>                                           | <b>30,096</b>     | 22,682            | 16,837             | 14,110              | 12,974              |
| <b>Information per ordinary share</b>                                          |                   |                   |                    |                     |                     |
| Basic earnings per share                                                       | <b>169.0c</b>     | 148.5c            | 129.6c             | 82.0c               | 57.6c               |
| Normalised earning per share <sup>2</sup>                                      | <b>170.7c</b>     | 153.7c            | 124.6c             | 90.1c               | 74.9c               |
| Dividends per share                                                            | <b>71.04c</b>     | 64.0c             | 57.5c              | 52.0c               | 47.0c               |
| Net asset value per share                                                      | <b>1,208.5c</b>   | 897.3c            | 719.0c             | 588.0c              | 569.8c              |
| <b>Ratios</b>                                                                  |                   |                   |                    |                     |                     |
| Post-tax return on ordinary shareholders' equity-normalised basis <sup>2</sup> | <b>16.9%</b>      | 18.0%             | 18.6%              | 15.7%               | 13.4%               |
| Basic cost-income ratio                                                        | <b>55.6%</b>      | 55.5%             | 52.9%              | 55.8%               | 56.3%               |
| Cost-income ratio – normalised basis <sup>2</sup>                              | <b>55.2%</b>      | 54.5%             | 54.0%              | 53.6%               | 53.6%               |
| <b>Capital ratios:</b>                                                         |                   |                   |                    |                     |                     |
| Tier 1 capital                                                                 | <b>8.4%</b>       | 7.7%              | 8.6%               | 8.6%                | 8.3%                |
| Total capital                                                                  | <b>14.3%</b>      | 13.6%             | 15.0%              | 14.5%               | 14.2%               |

<sup>1</sup> Shareholders' funds, minority interests and subordinated loan capital.

<sup>2</sup> Results on a normalised basis reflect the Group's results, excluding profits and losses of a capital nature, charges for restructuring and profits and losses on repurchase of share capital.

\* IFRS (excluding IAS 32 and 39).

\*\* UK GAAP.

## **Annex D – Audited Consolidated Financial Statements as of and for the year ended December 31, 2005**

The Group prepared its financial statements in accordance with IFRS for the first time in connection with the preparation of the 2005 Annual Report and consequently applied IFRS 1. The 2005 Annual Report includes comparative amounts as of and for the year ended December 31, 2004 that have been restated in accordance with IFRS.

## Independent Auditor's Report to the members of Standard Chartered PLC

We have audited the Group (Standard Chartered PLC and its subsidiaries) and Company (Standard Chartered PLC) financial statements (together referred to as the "financial statements") for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 62.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

#### In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2005; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation.

### KPMG Audit Plc

London  
Chartered Accountants  
Registered Auditor  
2 March 2006

## Consolidated Income Statement

For the year ended 31 December 2005

|                                                                          | Notes | Excluding<br>SCFB<br>\$million | SCFB<br>acquisition<br>\$million | 2005<br>\$million | 2004<br>\$million |
|--------------------------------------------------------------------------|-------|--------------------------------|----------------------------------|-------------------|-------------------|
| Interest income                                                          | 3     | 6,938                          | 1,812                            | 8,750             | 5,312             |
| Interest expense                                                         | 4     | (3,384)                        | (1,031)                          | (4,415)           | (2,130)           |
| <b>Net interest income</b>                                               |       | <b>3,554</b>                   | <b>781</b>                       | <b>4,335</b>      | <b>3,182</b>      |
| Fees and commission income                                               |       | 1,724                          | 116                              | 1,840             | 1,614             |
| Fees and commission expense                                              |       | (258)                          | (87)                             | (345)             | (282)             |
| Net trading income                                                       | 5     | 746                            | 23                               | 769               | 651               |
| Other operating income                                                   | 6     | 236                            | 26                               | 262               | 217               |
|                                                                          |       | 2,448                          | 78                               | 2,526             | 2,200             |
| <b>Operating income</b>                                                  |       | <b>6,002</b>                   | <b>859</b>                       | <b>6,861</b>      | <b>5,382</b>      |
| Staff costs                                                              | 7     | (1,834)                        | (311)                            | (2,145)           | (1,559)           |
| Premises costs                                                           | 7     | (321)                          | (42)                             | (363)             | (321)             |
| General administrative expenses                                          | 7     | (861)                          | (159)                            | (1,020)           | (731)             |
| Depreciation and amortisation                                            | 8     | (216)                          | (67)                             | (283)             | (238)             |
| <b>Operating expenses</b>                                                |       | <b>(3,232)</b>                 | <b>(579)</b>                     | <b>(3,811)</b>    | <b>(2,849)</b>    |
| <b>Operating profit before impairment losses and taxation</b>            |       | <b>2,770</b>                   | <b>280</b>                       | <b>3,050</b>      | <b>2,533</b>      |
| Impairment losses on loans and advances and other credit risk provisions | 19    | (266)                          | (53)                             | (319)             | (214)             |
| Other impairment                                                         | 9     | (50)                           | –                                | (50)              | (68)              |
| <b>Profit before taxation</b>                                            |       | <b>2,454</b>                   | <b>227</b>                       | <b>2,681</b>      | <b>2,251</b>      |
| Taxation                                                                 | 10    | (657)                          | (53)                             | (710)             | (630)             |
| <b>Profit for the year</b>                                               |       | <b>1,797</b>                   | <b>174</b>                       | <b>1,971</b>      | <b>1,621</b>      |
| Profit attributable to:                                                  |       |                                |                                  |                   |                   |
| Minority interests                                                       | 39    |                                |                                  | 25                | 43                |
| Parent company's shareholders                                            |       |                                |                                  | 1,946             | 1,578             |
| <b>Profit for the year</b>                                               |       |                                |                                  | <b>1,971</b>      | <b>1,621</b>      |
| Basic earnings per ordinary share                                        |       |                                |                                  |                   |                   |
|                                                                          | 12    |                                |                                  | 148.5c            | 129.6c            |
| Diluted earnings per ordinary share                                      |       |                                |                                  |                   |                   |
|                                                                          | 12    |                                |                                  | 146.9c            | 127.4c            |

As more fully explained in note 55, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and 39.

# Consolidated Balance Sheet

At 31 December 2005

|                                                            | Notes | 2005<br>\$million | 2004<br>\$million |
|------------------------------------------------------------|-------|-------------------|-------------------|
| <b>Assets</b>                                              |       |                   |                   |
| Cash and balances at central banks                         | 41    | 8,012             | 3,960             |
| Financial assets held at fair value through profit or loss | 14    | 10,333            | 4,744             |
| Derivative financial instruments                           | 15    | 9,370             | –                 |
| Loans and advances to banks                                | 16,19 | 21,701            | 16,687            |
| Loans and advances to customers                            | 17,19 | 111,791           | 72,019            |
| Investment securities                                      | 21    | 37,863            | 33,611            |
| Interests in associates                                    | 22    | 128               | –                 |
| Goodwill and intangible assets                             | 24    | 4,321             | 2,353             |
| Property, plant and equipment                              | 25    | 1,644             | 555               |
| Deferred tax assets                                        | 26    | 498               | 318               |
| Other assets                                               | 27    | 7,163             | 11,597            |
| Prepayments and accrued income                             |       | 2,272             | 1,280             |
| <b>Total assets</b>                                        |       | <b>215,096</b>    | <b>147,124</b>    |
| <b>Liabilities</b>                                         |       |                   |                   |
| Deposits by banks                                          | 28    | 18,834            | 15,162            |
| Customer accounts                                          | 29    | 119,931           | 85,093            |
| Financial liabilities at fair value through profit or loss | 30    | 6,293             | 2,392             |
| Derivative financial instruments                           | 15    | 9,864             | –                 |
| Debt securities in issue                                   | 31    | 25,913            | 11,005            |
| Current tax liabilities                                    |       | 283               | 295               |
| Other liabilities                                          | 33    | 8,446             | 14,789            |
| Accruals and deferred income                               |       | 2,319             | 1,321             |
| Provisions for liabilities and charges                     | 34    | 55                | 61                |
| Retirement benefit obligations                             | 35    | 476               | 169               |
| Subordinated liabilities and other borrowed funds          | 36    | 10,349            | 6,768             |
| <b>Total liabilities</b>                                   |       | <b>202,763</b>    | <b>137,055</b>    |
| <b>Equity</b>                                              |       |                   |                   |
| Share capital and share premium                            | 37    | 5,638             | 3,802             |
| Reserves and retained earnings                             | 38    | 6,244             | 5,303             |
| Total parent company shareholders' equity                  |       | 11,882            | 9,105             |
| Minority interests                                         | 39    | 451               | 964               |
| <b>Total equity</b>                                        |       | <b>12,333</b>     | <b>10,069</b>     |
| <b>Total equity and liabilities</b>                        |       | <b>215,096</b>    | <b>147,124</b>    |

As more fully explained in note 55, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and 39.

These accounts were approved by the Board of Directors on 2 March 2006 and signed on its behalf by:

**B K Sanderson**  
Chairman

**E M Davies**  
Group Chief Executive

**P A Sands**  
Group Finance Director

## Statement of Recognised Income and Expenses

For the year ended 31 December 2005

|                                                           | Notes | Group             |                   | Company           |                   |
|-----------------------------------------------------------|-------|-------------------|-------------------|-------------------|-------------------|
|                                                           |       | 2005<br>\$million | 2004<br>\$million | 2005<br>\$million | 2004<br>\$million |
| Exchange differences on translation of foreign operations |       | (90)              | 96                | –                 | –                 |
| Actuarial losses on retirement benefits                   | 35    | (150)             | (5)               | –                 | –                 |
| Available for sale investments:                           |       |                   |                   |                   |                   |
| Valuation gains taken to equity                           |       | 7                 | –                 | –                 | –                 |
| Transferred to income on disposal/redemption              |       | (107)             | –                 | –                 | –                 |
| Cash flow hedges:                                         |       |                   |                   |                   |                   |
| Losses taken to equity                                    |       | (65)              | –                 | –                 | –                 |
| Gains transferred to income for the year                  |       | (20)              | –                 | –                 | –                 |
| Deferred tax on items recognised directly in equity       |       | 141               | 1                 | –                 | –                 |
| Other                                                     |       | 1                 | 23                | 2                 | –                 |
|                                                           |       | (283)             | 115               | 2                 | –                 |
| Profit for the year                                       |       | 1,971             | 1,621             | 796               | 663               |
| <b>Total recognised income and expenses for the year</b>  |       | <b>1,688</b>      | <b>1,736</b>      | <b>798</b>        | <b>663</b>        |

### Effect of change in accounting policy

Effect of adopting IAS 32 and 39 on 1 January 2005:

|                            |    |       |
|----------------------------|----|-------|
| Available for sale reserve |    | 73    |
| Cash flow hedge reserve    |    | 42    |
| Retained earnings          |    | 36    |
|                            | 38 | 151   |
|                            |    | 1,839 |

### Attributable to:

|                             |    |       |       |     |     |
|-----------------------------|----|-------|-------|-----|-----|
| Parent company shareholders | 38 | 1,814 | 1,693 | 798 | 663 |
| Minority interests          | 39 | 25    | 43    | –   | –   |
|                             |    | 1,839 | 1,736 | 798 | 663 |

As more fully explained in note 55, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and 39.

## Cash Flow Statement

For the year ended 31 December 2005

|                                                                                 | Group             |                   | Company           |                   |
|---------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                                 | 2005<br>\$million | 2004<br>\$million | 2005<br>\$million | 2004<br>\$million |
| <b>Cash flow from operating activities</b>                                      |                   |                   |                   |                   |
| Profit before taxation                                                          | 2,681             | 2,251             | 785               | 663               |
| Adjustment for items not involving cash flow or shown separately                |                   |                   | –                 | –                 |
| Depreciation and amortisation of premises, plant and equipment                  | 250               | 238               | –                 | –                 |
| Gain on disposal of property, plant and equipment                               | 1                 | (4)               | –                 | –                 |
| Gain on disposal of investment securities                                       | (107)             | (164)             | –                 | –                 |
| Amortisation of investments                                                     | 18                | (41)              | –                 | –                 |
| Loan impairment losses                                                          | 319               | 214               | –                 | –                 |
| Other impairment                                                                | 50                | 68                | –                 | –                 |
| Assets written off, net of recoveries                                           | (718)             | (504)             | –                 | –                 |
| Increase in accruals and deferred income                                        | 952               | 80                | 1,453             | –                 |
| Increase in prepayments and accrued income                                      | (1,248)           | (164)             | –                 | –                 |
| Net increase/(decrease) in mark to market adjustment                            | 939               | (259)             | –                 | –                 |
| Interest paid on subordinated loan capital                                      | 274               | 338               | 79                | 34                |
| UK and overseas taxes paid                                                      | (611)             | (573)             | –                 | –                 |
| Net increase in treasury bills and other eligible bills                         | (686)             | (78)              | –                 | –                 |
| Net increase in loans and advances to banks and customers                       | (5,730)           | (11,999)          | –                 | –                 |
| Net increase in deposits from banks, customer accounts/debt securities in issue | 18,996            | 15,004            | –                 | –                 |
| Net increase in dealing securities                                              | (1,494)           | (2,118)           | –                 | –                 |
| Net (decrease)/increase in other accounts                                       | (4,082)           | 2,730             | 144               | (156)             |
| <b>Net cash from operating activities</b>                                       | <b>9,804</b>      | <b>5,019</b>      | <b>2,461</b>      | <b>541</b>        |
| <b>Net cash flows from investing activities</b>                                 |                   |                   |                   |                   |
| Purchase of property, plant and equipment                                       | (135)             | (240)             | –                 | –                 |
| Acquisition of investment in subsidiaries, net of cash acquired                 | (1,093)           | (333)             | (3,681)           | –                 |
| Acquisition of treasury bills                                                   | (13,443)          | (9,188)           | –                 | –                 |
| Acquisition of debt securities                                                  | (33,655)          | (75,353)          | –                 | –                 |
| Acquisition of equity shares                                                    | (658)             | (121)             | –                 | –                 |
| Disposal of subsidiaries, associated undertakings and branches                  | –                 | 6                 | –                 | –                 |
| Disposal of property, plant and equipment                                       | 8                 | 51                | –                 | –                 |
| Disposal and maturity of treasury bills                                         | 12,599            | 10,778            | –                 | –                 |
| Disposal and maturity of debt securities                                        | 35,748            | 71,482            | –                 | –                 |
| Disposal of equity shares                                                       | 351               | 356               | –                 | –                 |
| <b>Net cash used in investing activities</b>                                    | <b>(278)</b>      | <b>(2,562)</b>    | <b>(3,681)</b>    | <b>–</b>          |
| <b>Net cash (outflow)/inflow from financing activities</b>                      |                   |                   |                   |                   |
| Issue of ordinary share capital                                                 | 2,000             | 17                | 2,000             | 17                |
| Purchase of own shares, net of exercise, for share option awards                | 150               | (95)              | –                 | –                 |
| Interest paid on subordinated loan capital                                      | (274)             | (338)             | (79)              | (34)              |
| Gross proceeds from issue of subordinated loan capital                          | 3,874             | 499               | –                 | –                 |
| Repayment of subordinated liabilities                                           | (1,026)           | (25)              | –                 | –                 |
| Dividends and payments to minority interests and preference shareholders        | (173)             | (75)              | (29)              | (59)              |
| Dividends paid to ordinary shareholders                                         | (685)             | (587)             | (685)             | (587)             |
| <b>Net cash from/(used in) financing activities</b>                             | <b>3,866</b>      | <b>(604)</b>      | <b>1,207</b>      | <b>(663)</b>      |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                     | <b>13,392</b>     | <b>1,853</b>      | <b>(13)</b>       | <b>(122)</b>      |
| Cash and cash equivalents at beginning of year                                  | 22,112            | 20,202            | 1,603             | 1,705             |
| Effect of exchange rate change on cash and cash equivalents                     | (278)             | 57                | –                 | 20                |
| <b>Cash and cash equivalents at end of year (note 41)</b>                       | <b>35,226</b>     | <b>22,112</b>     | <b>1,590</b>      | <b>1,603</b>      |

## Company Balance Sheet

At 31 December 2005

|                                                        | Notes | 2005<br>\$million | 2004<br>\$million |
|--------------------------------------------------------|-------|-------------------|-------------------|
| <b>Non-current assets</b>                              |       |                   |                   |
| Investments in subsidiary undertakings                 | 22    | 7,973             | 4,292             |
| <b>Current assets</b>                                  |       |                   |                   |
| Amounts owed by subsidiary undertakings                |       | 1,839             | 2,221             |
| Taxation                                               |       | 204               | 206               |
| Other                                                  |       | 24                | 7                 |
|                                                        |       | 2,067             | 2,434             |
| <b>Creditors: amounts due within one year</b>          |       |                   |                   |
| Amounts owed to subsidiary undertakings                |       | 249               | 618               |
| Other creditors, including taxation                    |       | 32                | 8                 |
| Deferred income                                        |       | 53                | –                 |
|                                                        |       | 334               | 626               |
| <b>Net current assets</b>                              |       | 1,733             | 1,808             |
| <b>Total assets less current liabilities</b>           |       | 9,706             | 6,100             |
| <b>Creditors: amounts due after more than one year</b> |       |                   |                   |
| Subordinated liabilities and other borrowed funds      | 36    | 1,893             | 1,588             |
| Deferred income                                        |       | 1,400             | –                 |
|                                                        |       | 6,413             | 4,512             |
| <b>Equity</b>                                          |       |                   |                   |
| Share capital and share premium                        | 37    | 5,638             | 3,802             |
| Reserves and retained earnings                         | 38    | 775               | 710               |
| <b>Total equity</b>                                    |       | 6,413             | 4,512             |

As more fully explained in note 55, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and 39.

These accounts were approved by the Board of Directors on 2 March 2006 and signed on its behalf by:

**B K Sanderson**  
Chairman

**E M Davies**  
Group Chief Executive

**P A Sands**  
Group Finance Director

# Notes to the Accounts

## 1. Accounting Policies

### Statement of compliance

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). In publishing the parent company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

Both the Group and the Company are preparing their financial statements in accordance with adopted IFRSs for the first time and consequently both have applied IFRS 1. An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group and Company is provided in note 55. The Group and the Company have taken advantage of the transitional arrangements of IFRSs not to restate corresponding comparative amounts in accordance with IAS 32 and 39. These Standards were adopted on 1 January 2005. Adjustments required to adopt IAS 32 and 39 are set out in note 55.

The Group has adopted the Amendment to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option and the Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures with effect from 1 January 2005, ahead of their effective dates.

### Basis of preparation

The preparation of financial statements in conformity with adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to adopted IFRSs.

### Consolidation Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

### Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Joint Ventures

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements.

### Foreign currency translation

Both the parent company financial statements and the Group financial statements are presented in US dollars, which is the Group's functional and presentation currency.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary transactions are translated at historical exchange rates.

### Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences are recognised as a separate component of equity.

## Notes to the Accounts continued

### 1. Accounting Policies continued

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Such exchange differences arising since 1 January 2004 have been separately identified within equity and when a foreign operation is sold, they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### Intangible assets

##### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'interests in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

##### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

#### Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

|                              |                               |
|------------------------------|-------------------------------|
| Buildings                    | up to 50 years                |
| Leasehold improvements       | life of lease, up to 50 years |
| Equipment and motor vehicles | 3 to 15 years                 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are included in the income statement.

#### Leases

##### Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are

charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

##### Where a Group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax and cash flows.

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances at central banks (unless restricted), treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

#### Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

#### Employee benefits

##### Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of recognised income and expense in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs together with the expected return on plan assets less the effect of the unwinding of the discount on plan liabilities are charged to operating expenses.

## 1. Accounting Policies continued

### Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date with any changes in fair value charged or credited to staff costs in the income statement.

### Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

### Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which carry a mandatory coupon, or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in other income.

### Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

### Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

### Financial assets and liabilities (excluding derivatives)

#### From 01.01.04 to 31.12.04

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis in the Group's activities are classified as investment securities. They include portfolios of securities held in countries where the Group is required to maintain a stock of liquid assets. Investment securities are stated at cost less any provision for permanent diminution in value. The cost of dated investment securities is adjusted to reflect the amortisation of accretion of premiums and discounts on acquisition on a straight-line basis over the residual period to maturity. The amortisation and accretion of premiums and discounts are included in interest income.

Securities other than investment securities are classified as trading securities and are held at market value. Where the market value of such securities is higher than cost, the original cost is not disclosed as its determination is not practicable.

#### From 01.01.05

The Group classifies its financial assets in the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Financial liabilities are classified as either at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition.

#### (a) Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
- a group of financial assets and/or liabilities are managed and its performance evaluated on a fair value basis, or
- assets or liabilities include embedded derivatives and such derivatives are not recognised separately.

## Notes to the Accounts continued

### 1. Accounting Policies continued

#### (b) Loans and receivables

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

#### (c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

#### (d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets and liabilities at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished.

Available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets held at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets other than foreign exchange gains and losses from monetary items are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

#### Impairment of financial assets

##### From 01.01.04 to 31.12.04

Provisions for impairment are held in respect of loans and advances, including cross border exposures. The provisions comprise two elements – specific and general.

Provisions against loans and advances are based on an appraisal of the loan portfolio. Specific provisions are made where the repayment of identified loans is in doubt and reflect an estimate of the amount of loss expected. The general provision is for the inherent risk of losses which, although they have not been separately identified, are known from experience to be present in any loan portfolio and to other material uncertainties where

specific provisioning is not appropriate. The amount of the general provision reflects past experience and judgements about current conditions in particular locations or business sectors.

Provisions are made against cross border exposures where a country may experience or has experienced external liquidity problems and doubts exist as to whether full recovery will be achieved.

Provisions are applied to write off advances, in part or in whole, when they are considered wholly or partly irrecoverable.

Interest on loans and advances is accrued to income until such time as reasonable doubt exists about its collectability; thereafter, and until all or part of the loan is written off, interest continues to accrue on customers' accounts, but is not included in income. Such suspended interest is deducted from loans and advances on the balance sheet.

##### From 01.01.05

#### Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

## 1. Accounting Policies continued

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

### Available-for-sale assets

A significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

### Derivative financial instruments and hedge accounting From 01.01.04 to 31.12.04

Off-balance sheet financial instruments are valued with reference to market prices and the resultant profit or loss is included in the profit and loss account, except where the position in the instrument has been designated as a hedge when the profit or loss resulting from marking them to market is dealt with in the same way as the accounting treatment applied to the position hedged.

Trading positions are valued at market rates, and non-trading positions are valued on the same basis as the items being hedged. Netting occurs where transactions with the same counterparty meet the following requirements. The balances must be determinable and in freely convertible currencies, the Standard Chartered entity can insist on net settlement, and this ability is beyond doubt.

### From 01.01.05

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the

host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

#### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### (c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

#### Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

## Notes to the Accounts continued

### 1. Accounting Policies continued

#### Offsetting financial instruments

From 01.01.04 to 31.12.04

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts.

From 01.01.05

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

#### Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') remain on the balance sheet; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

#### Interest income and expense

From 01.01.05

Interest income and expense is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through

the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### Fees and commissions

From 01.01.04 to 31.12.04

Fees and commissions which represent a payment for a service provided in setting up a transaction, are credited to the profit and loss account once they are receivable.

Fees and commissions which in substance amount to an additional interest charge, are recognised over the life of the underlying transaction on a level yield basis.

From 01.01.05

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

#### Hyperinflation

Where the Group has operations in countries that experience hyperinflation, the financial statements are restated for changes in general purchasing power of the local currency.

## 2. Segmental Information

The Group is organised on a worldwide basis into two main business segments: Wholesale Banking and Consumer Banking. The types of products and services within these segments are set out in the Financial Review. The Group's secondary reporting format comprises geographical segments.

### By Class of Business

|                                            | 2005                          |                                |                                            |                    | 2004                          |                                |                                            |                    |
|--------------------------------------------|-------------------------------|--------------------------------|--------------------------------------------|--------------------|-------------------------------|--------------------------------|--------------------------------------------|--------------------|
|                                            | Consumer Banking<br>\$million | Wholesale Banking<br>\$million | Corporate items not allocated<br>\$million | Total<br>\$million | Consumer Banking<br>\$million | Wholesale Banking<br>\$million | Corporate items not allocated<br>\$million | Total<br>\$million |
| Internal income                            | 26                            | (26)                           | –                                          | –                  | (2)                           | 2                              | –                                          | –                  |
| Net interest income                        | 2,861                         | 1,474                          | –                                          | 4,335              | 1,961                         | 1,220                          | 1                                          | 3,182              |
| Other income                               | 920                           | 1,606                          | –                                          | 2,526              | 741                           | 1,352                          | 107                                        | 2,200              |
| Operating income                           | 3,807                         | 3,054                          | –                                          | 6,861              | 2,700                         | 2,574                          | 108                                        | 5,382              |
| Operating expenses                         | (2,101)                       | (1,710)                        | –                                          | (3,811)            | (1,400)                       | (1,426)                        | (23)                                       | (2,849)            |
| Operating profit before impairment losses  | 1,706                         | 1,344                          | –                                          | 3,050              | 1,300                         | 1,148                          | 85                                         | 2,533              |
| Impairment losses on loans and advances    | (425)                         | 106                            | –                                          | (319)              | (242)                         | 28                             | –                                          | (214)              |
| Other impairment                           | (3)                           | (11)                           | (36)                                       | (50)               | –                             | (1)                            | (67)                                       | (68)               |
| Operating profit before taxation           | 1,278                         | 1,439                          | (36)                                       | 2,681              | 1,058                         | 1,175                          | 18                                         | 2,251              |
| Total assets employed                      | 74,134                        | 140,464                        | *498                                       | 215,096            | 38,094                        | 108,712                        | *318                                       | 147,124            |
| Total liabilities employed                 | 79,008                        | 123,472                        | *283                                       | 202,763            | 53,384                        | 83,376                         | *295                                       | 137,055            |
| Total risk weighted assets and contingents | 52,054                        | 73,870                         | –                                          | 125,924            | 28,069                        | 64,055                         | –                                          | 92,124             |
| Other segment items:                       |                               |                                |                                            |                    |                               |                                |                                            |                    |
| Capital expenditure                        | 114                           | 109                            | –                                          | 223                | 98                            | 96                             | –                                          | 194                |
| Depreciation                               | 68                            | 58                             | –                                          | 126                | 60                            | 55                             | –                                          | 115                |
| Amortisation of intangible assets          | 74                            | 83                             | –                                          | 157                | 38                            | 85                             | –                                          | 123                |

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

## Notes to the Accounts continued

### 2. Segmental Information continued

#### By geographic segment

The Group manages its business segments on a global basis. The operations are based in nine main geographical areas. The UK is the home country of the parent. Following the acquisition of SC First Bank (SCFB, formerly Korea First Bank), a new geographical area of Korea has been included. Comparative amounts have been restated.

|                                              | 2005                      |                        |                       |                    |                                       |                    |                                                   |                     |                                                          |                    |
|----------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|---------------------------------------------------|---------------------|----------------------------------------------------------|--------------------|
|                                              | Asia Pacific              |                        |                       |                    |                                       | India<br>\$million | *Middle<br>East &<br>Other<br>S Asia<br>\$million | Africa<br>\$million | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |
|                                              | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million |                    |                                                   |                     |                                                          |                    |
| Internal income                              | 49                        | 3                      | 4                     | (4)                | 10                                    | (10)               | 1                                                 | (16)                | (37)                                                     | –                  |
| Net interest income                          | 935                       | 270                    | 214                   | 826                | 626                                   | 337                | 478                                               | 380                 | 269                                                      | 4,335              |
| Fees and commissions income, net             | 352                       | 139                    | 60                    | 45                 | 225                                   | 151                | 234                                               | 151                 | 138                                                      | 1,495              |
| Net trading income                           | 101                       | 84                     | 44                    | 63                 | 165                                   | 72                 | 89                                                | 31                  | 120                                                      | 769                |
| Other operating income                       | 75                        | 14                     | 11                    | 24                 | 28                                    | 40                 | 6                                                 | 5                   | 59                                                       | 262                |
| Operating income                             | 1,512                     | 510                    | 333                   | 954                | 1,054                                 | 590                | 808                                               | 551                 | 549                                                      | 6,861              |
| Operating expenses                           | (649)                     | (246)                  | (150)                 | (632)              | (610)                                 | (306)              | (339)                                             | (399)               | (480)                                                    | (3,811)            |
| Operating profit before impairment losses    | 863                       | 264                    | 183                   | 322                | 444                                   | 284                | 469                                               | 152                 | 69                                                       | 3,050              |
| Impairment losses on loans and advances      | (117)                     | (43)                   | (30)                  | (61)               | (49)                                  | (50)               | 9                                                 | (43)                | 65                                                       | (319)              |
| Other impairment                             | (1)                       | –                      | –                     | –                  | –                                     | 1                  | –                                                 | (47)                | (3)                                                      | (50)               |
| Operating profit before taxation             | 745                       | 221                    | 153                   | 261                | 395                                   | 235                | 478                                               | 62                  | 131                                                      | 2,681              |
| Loans and advances to customers – average    | 22,148                    | 11,966                 | 6,521                 | 23,315             | 9,971                                 | 5,107              | 7,917                                             | 2,088               | 9,819                                                    | 98,852             |
| Net interest margins (%)                     | 2.2                       | 1.1                    | 2.2                   | 2.0                | 3.0                                   | 3.3                | 3.2                                               | 7.3                 | 0.5                                                      | 2.5                |
| Loans and advances to customers – period end | 21,584                    | 12,541                 | 7,613                 | 36,037             | 11,210                                | 5,017              | 7,348                                             | 2,251               | 8,576                                                    | 112,177            |
| Loans and advances to banks – period end     | 5,688                     | 2,431                  | 173                   | 3,222              | 2,213                                 | 238                | 1,255                                             | 313                 | 7,426                                                    | 22,959             |
| Total assets employed**                      | 49,943                    | 23,602                 | 10,409                | 59,929             | 24,141                                | 10,943             | 12,902                                            | 5,606               | 37,083                                                   | 234,558            |
| Total risk weighted assets and contingents   | 21,281                    | 11,770                 | 5,224                 | 31,850             | 15,140                                | 6,369              | 9,304                                             | 2,732               | 24,256                                                   | 127,926            |
| Capital expenditure                          | 36                        | 43                     | 6                     | 42                 | 34                                    | 18                 | 11                                                | 13                  | 20                                                       | 223                |

\* Middle East and Other S Asia includes UAE operating income of \$331 million, operating expenses of \$133 million, impairment losses on loans and advances of \$20 million and operating profit before taxation of \$178 million.

\*\* Total assets employed includes intra-group items of \$19,960 million and excludes deferred tax assets of \$498 million.

## 2. Segmental Information continued

| 2004                                            |                           |                        |                       |                    |                                       |                    |                                                   |                     |                                                          |                    |
|-------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|---------------------------------------------------|---------------------|----------------------------------------------------------|--------------------|
|                                                 | Asia Pacific              |                        |                       |                    |                                       | India<br>\$million | *Middle<br>East &<br>Other<br>S Asia<br>\$million | Africa<br>\$million | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |
|                                                 | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million |                    |                                                   |                     |                                                          |                    |
| Internal income                                 | 28                        | (12)                   | (10)                  | (4)                | (4)                                   | (12)               | (4)                                               | (23)                | 41                                                       | –                  |
| Net interest income                             | 899                       | 324                    | 194                   | 32                 | 465                                   | 299                | 370                                               | 374                 | 225                                                      | 3,182              |
| Fees and commissions                            |                           |                        |                       |                    |                                       |                    |                                                   |                     |                                                          |                    |
| Income, net                                     | 323                       | 114                    | 51                    | 7                  | 189                                   | 111                | 203                                               | 153                 | 181                                                      | 1,332              |
| Net trading income                              | 99                        | 81                     | 30                    | 33                 | 88                                    | 67                 | 75                                                | 74                  | 104                                                      | 651                |
| Other operating income                          | 57                        | 6                      | 5                     | 2                  | 17                                    | 1                  | 4                                                 | 6                   | 119                                                      | 217                |
| Operating income                                | 1,406                     | 513                    | 270                   | 70                 | 755                                   | 466                | 648                                               | 584                 | 670                                                      | 5,382              |
| Operating expenses                              | (660)                     | (228)                  | (145)                 | (41)               | (477)                                 | (252)              | (270)                                             | (360)               | (416)                                                    | (2,849)            |
| Operating profit before<br>impairment losses    | 746                       | 285                    | 125                   | 29                 | 278                                   | 214                | 378                                               | 224                 | 254                                                      | 2,533              |
| Impairment losses on loans<br>and advances      | (125)                     | (33)                   | (2)                   | 3                  | (43)                                  | (22)               | (2)                                               | (12)                | 22                                                       | (214)              |
| Other impairment                                | –                         | –                      | –                     | –                  | –                                     | 2                  | –                                                 | –                   | (70)                                                     | (68)               |
| Operating profit before taxation                | 621                       | 252                    | 123                   | 32                 | 235                                   | 194                | 376                                               | 212                 | 206                                                      | 2,251              |
| Loans and advances to<br>customers – average    | 21,608                    | 10,398                 | 5,272                 | 352                | 8,008                                 | 3,841              | 6,325                                             | 1,833               | 7,430                                                    | 65,067             |
| Net interest margin (%)                         | 2.2                       | 1.6                    | 2.4                   | 1.1                | 2.8                                   | 3.6                | 3.1                                               | 7.6                 | 0.6                                                      | 2.6                |
| Loans and advances to customers<br>– period end | 21,744                    | 11,765                 | 6,374                 | 794                | 8,961                                 | 4,692              | 6,972                                             | 2,013               | 8,844                                                    | 72,159             |
| Loans and advances to banks –<br>period end     | 2,852                     | 2,072                  | 349                   | 1,646              | 1,705                                 | 171                | 892                                               | 374                 | 7,321                                                    | 17,382             |
| Total assets employed**                         | 48,478                    | 20,414                 | 7,119                 | 5,093              | 17,377                                | 8,611              | 12,867                                            | 6,419               | 56,792                                                   | 183,170            |
| Total risk weighted assets and<br>contingents   | 20,337                    | 13,892                 | 4,411                 | 1,639              | 11,705                                | 6,413              | 8,761                                             | 2,749               | 24,895                                                   | 94,802             |
| Capital expenditure                             | 22                        | 28                     | 12                    | 4                  | 9                                     | 44                 | 15                                                | 14                  | 46                                                       | 194                |

\* Middle East and Other S Asia includes UAE operating income of \$271 million, operating expenses of \$100 million, impairment losses on loans and advances of \$1 million and operating profit before taxation of \$170 million.

\*\* Total assets employed includes intra-group items of \$28,801 million, \$7,563 million of derivative balances which are netted on the Consolidated Balance Sheet and excludes deferred tax assets of \$318 million.

## Notes to the Accounts continued

### 2. Segmental Information continued

Following the acquisition of SCFB on 15 April 2005, Korea has been identified as a separately reportable geographic segment. In 2004, the existing Korean business was included in Other Asia Pacific. Accordingly, this segment has been restated to present Korea separately. The UAE segment has been included within Middle East and Other S Asia.

Apart from SCFB, Group central expenses have been distributed between segments in proportion to their direct costs and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. In SCFB, allocations have been based on an estimate of direct management costs of integration as a transitional measure.

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 \$2,002 million (31 December 2004: \$2,678 million) of balances which are netted in calculating capital ratios.

In 2005 other impairment includes provision made in respect of exposures in Zimbabwe. In 2004 other operating income includes profits and losses arising from corporate decisions to dispose of investments in KorAm Bank (\$95 million in Americas, UK & Group Head Office) and Bank of China (Hong Kong) (\$36 million in Hong Kong) and the premium on repurchase of surplus subordinated debt (\$23 million in India). Costs include \$18 million related to the incorporation of the Hong Kong business (Hong Kong) and the \$5 million donation to the Tsunami relief effort (Malaysia, India, Other APR and MESA). Other impairment includes goodwill impairment of \$67 million. These decisions resulted in net non-recurring gains of \$18 million. They are included in the Geographic segmental information, but are not allocated to businesses in the Business segmental information.

Capital expenditure comprises additions to property and equipment (note 25) and intangibles (note 24) including additions resulting from acquisitions.

### 3. Interest Income

|                                              | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------|-------------------|-------------------|
| Balances at central banks                    | 8                 | 3                 |
| Treasury bills                               | 469               | 254               |
| Loans and advances to banks                  | 851               | 491               |
| Loans and advances to customers              | 6,104             | 3,563             |
| Listed debt securities                       | 525               | 428               |
| Unlisted debt securities                     | 745               | 573               |
| Accrued on impaired assets (discount unwind) | 48                | –                 |
|                                              | 8,750             | 5,312             |

Total interest income from financial instruments held at amortised cost in 2005 is \$6,313 million.

### 4. Interest Expense

|                                                     | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------------------------|-------------------|-------------------|
| Deposits by banks                                   | 643               | 385               |
| Customer accounts:                                  |                   |                   |
| Current and demand accounts                         | 597               | 239               |
| Savings deposits                                    | 97                | 68                |
| Time deposits                                       | 1,852             | 895               |
| Debt securities in issue                            | 703               | 178               |
| Subordinated loan capital and other borrowed funds: |                   |                   |
| Wholly repayable within five years                  | 158               | 82                |
| Other                                               | 365               | 283               |
|                                                     | 4,415             | 2,130             |

Total interest expense on financial instruments held at amortised cost in 2005 is \$4,262 million.

## 5. Net Trading Income

|                                         | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------------|-------------------|-------------------|
| Gains less losses on foreign currency   | 613               | 494               |
| Gains less losses on trading securities | (19)              | 20                |
| Other trading profits                   | 175               | 137               |
|                                         | 769               | 651               |

## 6. Other Operating Income

|                                                                      | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------|-------------------|-------------------|
| Other operating income includes:                                     |                   |                   |
| Gains less losses on disposal of investment securities               | –                 | 164               |
| Gains less losses on disposal of available-for-sale financial assets | 107               | –                 |
| Dividend income                                                      | 62                | 11                |
| Premium paid on repurchase of subordinated debt                      | –                 | (23)              |

## 7. Operating Expenses

|                                    | 2005<br>\$million | 2004<br>\$million |
|------------------------------------|-------------------|-------------------|
| Staff costs:                       |                   |                   |
| Wages and salaries                 | 1,653             | 1,195             |
| Social security costs              | 48                | 32                |
| Other pension costs (note 35)      | 131               | 92                |
| Other staff costs                  | 313               | 240               |
|                                    | 2,145             | 1,559             |
| Premises and equipment expenses:   |                   |                   |
| Rental of premises                 | 183               | 150               |
| Other premises and equipment costs | 167               | 159               |
| Rental of computers and equipment  | 13                | 12                |
|                                    | 363               | 321               |
| General administrative expenses    | 1,020             | 731               |

Wages and salaries include share based expenses – see note 40.

The Group employed 43,899 staff at 31 December 2005 (31 December 2004: 33,323).

The Company employed nil staff at 31 December 2005 (31 December 2004: nil). It incurred costs of \$3 million (2004: \$2 million).

### Directors emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 49 to 61.

Transactions with directors, officers and other related parties are disclosed in the related parties note 51 on page 126.

## Notes to the Accounts continued

### 7. Operating Expenses continued

Other administrative expenses include \$12.4 million (2004: \$8.3 million) in respect of auditor's remuneration for the Group, of which \$0.4 million (2004: \$0.4 million) relates to the Company. The auditors of the Company, KPMG Audit Plc and their associated firms, also received \$3.1 million (2004: \$5.9 million) in respect of non-audit services provided to the Group. Details of non-audit services are reflected below:

|                                                                 | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------------------------------------|-------------------|-------------------|
| Non-audit fees paid to KPMG Audit Plc and its associated firms: |                   |                   |
| Regulatory reviews                                              | 0.3               | 1.7               |
| Accounting reviews/advisory                                     | 1.1               | 0.3               |
| Capital raising activities                                      | 0.2               | 0.2               |
| Assistance with business acquisitions and disposals             | 0.4               | 1.1               |
| Tax advisory and compliance                                     | 0.8               | 1.2               |
| Other assistance                                                | 0.3               | 1.4               |
|                                                                 | 3.1               | 5.9               |

In addition to the above services, the Group's auditors acted as auditor to the Standard Chartered Pension Fund, a UK defined contribution staff pension plan and, since the date of acquisition, the SC First Bank pension plans. The appointment of auditors to the Group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the Group. The aggregate fees paid to the Group's auditor for audit services to the pension schemes during the year were \$0.2 million (2004: \$0.2 million).

### 8. Depreciation and Amortisation

|                                   | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------|-------------------|-------------------|
| Premises                          | 53                | 47                |
| Equipment                         | 73                | 68                |
| Intangibles:                      |                   |                   |
| Software                          | 125               | 123               |
| Acquired on business combinations | 32                | –                 |
|                                   | 283               | 238               |

### 9. Other Impairment

|          | 2005<br>\$million | 2004<br>\$million |
|----------|-------------------|-------------------|
| Goodwill | 2                 | 67                |
| Other    | 48                | 1                 |
|          | 50                | 68                |

Under IFRS, goodwill is not amortised. Instead, annual impairment assessments are made. On transition to IFRS on 1 January 2004, goodwill amortisation of \$181 million recorded under UK GAAP in 2004 was reversed and an impairment charge of \$67 million was recorded in its place to write down goodwill on certain investments to \$nil (see note 24). Other impairment mainly comprises provision for exposures in Zimbabwe.

## 10. Taxation

Analysis of taxation charge in the year:

|                                                                        | 2005<br>\$million | 2004<br>\$million |
|------------------------------------------------------------------------|-------------------|-------------------|
| The charge for taxation based upon the profits for the year comprises: |                   |                   |
| United Kingdom corporation tax at 30% (31 December 2004: 30%):         |                   |                   |
| Current tax on income for the year                                     | 326               | 407               |
| Adjustments in respect of prior periods                                | 4                 | 18                |
| Double taxation relief                                                 | (308)             | (357)             |
| Foreign tax:                                                           |                   |                   |
| Current tax on income for the year                                     | 671               | 559               |
| Adjustments in respect of prior periods                                | (18)              | (13)              |
| Total current tax                                                      | 675               | 614               |
| Deferred tax:                                                          |                   |                   |
| Origination/reversal of temporary differences                          | 35                | 16                |
| Tax on profits on ordinary activities                                  | 710               | 630               |
| Effective tax rate                                                     | 26.5%             | 28.0%             |

Overseas taxation includes taxation on Hong Kong profits of \$131 million (31 December 2004: \$92 million) provided at a rate of 17.5 per cent (31 December 2004: 17.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 30 per cent.

The differences are explained below:

|                                                          | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------|-------------------|-------------------|
| Profit on ordinary activities before taxation            | 2,681             | 2,251             |
| Tax at 30 per cent (2004: 30 per cent)                   | 804               | 675               |
| Effects of:                                              |                   |                   |
| Tax free income                                          | (16)              | –                 |
| Lower taxes on overseas earnings                         | (111)             | (12)              |
| One-off adjustments on Korea branch transfer             | (12)              | –                 |
| Adjustments to tax charge in respect of previous periods | (16)              | 3                 |
| Capital gains against which losses have been applied     | –                 | (36)              |
| Other items                                              | 26                | (16)              |
| Total current taxation charge                            | 675               | 614               |

Tax recognised directly in equity:

|                                                                    | 2005<br>\$million | 2004<br>\$million |
|--------------------------------------------------------------------|-------------------|-------------------|
| Current tax credit on instruments reclassified from debt to equity | 20                | 20                |
| Deferred tax credit on available-for-sale investments              | 49                | –                 |
| Deferred tax credit on pensions                                    | 51                | 46                |
| Deferred tax credit on share based awards                          | 86                | –                 |
| Deferred tax on other items                                        | 29                | –                 |
| Total deferred tax recognised in equity                            | 215               | 46                |
| Total tax recognised in equity                                     | 235               | 66                |

## Notes to the Accounts continued

### 11. Dividends

| Ordinary Equity Shares                                | 2005            |           | 2004            |           |
|-------------------------------------------------------|-----------------|-----------|-----------------|-----------|
|                                                       | Cents per share | \$million | Cents per share | \$million |
| Final dividend declared and paid during the period    | 40.44           | 524       | 36.49           | 429       |
| Interim dividends declared and paid during the period | 18.94           | 248       | 17.06           | 201       |
|                                                       | 59.38           | 772       | 53.55           | 630       |

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior years. The 2005 final dividend of 45.06 cents per share (\$595 million) will be paid in either sterling, Hong Kong dollars or US dollars on 12 May 2006 to shareholders on the UK register of members at the close of business in the UK on 10 March 2006 and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00am Hong Kong time) on 10 March 2006. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend will be sent to shareholders on or around 27 March 2006.

| Preference Shares                                                                                                   | 2005<br>\$million | 2004<br>\$million |
|---------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Non-cumulative irredeemable preference shares: 7 <sup>3</sup> / <sub>8</sub> per cent preference shares of £1 each* | 14                | 14                |
| 8 <sup>1</sup> / <sub>4</sub> per cent preference shares of £1 each*                                                | 15                | 15                |
| Non-cumulative redeemable preference shares: 8.9 per cent preference shares of \$5 each                             | 29                | 29                |

\* Dividends on these preference shares are treated as interest expense in 2005 following adoption of IAS 32.

### 12. Earnings Per Ordinary Share

|                                               | 2005                |                                                   |                                 | 2004                |                                                   |                                 |
|-----------------------------------------------|---------------------|---------------------------------------------------|---------------------------------|---------------------|---------------------------------------------------|---------------------------------|
|                                               | Profit<br>\$million | Weighted<br>average number<br>of shares<br>(‘000) | Per<br>share<br>amount<br>cents | Profit<br>\$million | Weighted<br>average number<br>of shares<br>(‘000) | Per<br>share<br>amount<br>cents |
| Basic earnings per ordinary share             | 1,917               | 1,290,916                                         | 148.5                           | 1,520               | 1,172,921                                         | 129.6                           |
| Effect of dilutive potential ordinary shares: |                     |                                                   |                                 |                     |                                                   |                                 |
| Convertible bonds                             | 7                   | 10,346                                            |                                 | 23                  | 34,488                                            |                                 |
| Options                                       | –                   | 8,678                                             |                                 | –                   | 3,444                                             |                                 |
| Diluted earnings per share                    | 1,924               | 1,309,940                                         | 146.9                           | 1,543               | 1,210,853                                         | 127.4                           |

#### 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:

|                                                                      | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------|-------------------|-------------------|
| Profit attributable to ordinary shareholders                         | 1,917             | 1,520             |
| Profit on sale of shares in – KorAm                                  |                   | (95)              |
| – Bank of China                                                      |                   | (36)              |
| Premium and costs paid on repurchase of subordinated debt            |                   | 23                |
| Costs of Hong Kong incorporation                                     |                   | 18                |
| Tsunami donation                                                     |                   | 5                 |
| Goodwill impairment                                                  |                   | 67                |
| Total one-off items                                                  |                   | (18)              |
| Amortisation of intangible assets arising on business combinations   | 32                | –                 |
| Profit less losses on disposal of investment securities held at cost | –                 | (33)              |
| Profit on sale of property, plant and equipment                      | –                 | (4)               |
| Profit on disposal of subsidiary undertakings                        | –                 | (4)               |
| Other impairment                                                     | 42                | 1                 |
| Tax on normalised items                                              | (7)               | –                 |
| Normalised earnings                                                  | 1,984             | 1,462             |
| Normalised earnings per ordinary share                               | 153.7c            | 124.6c            |

## 12. Earnings Per Ordinary Share continued

No ordinary shares were 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 except as described in notes 37 and 52.

Normalised EPS has grown by 23 per cent. With the adoption of IAS 39, the Group no longer normalises gains and losses on

disposal of investment securities as these are now held in an available-for-sale portfolio at fair value.

Had this policy been adopted in 2004, normalised earnings per share would have been 127.5 cents and EPS growth would have been 20 per cent.

## 13. Financial Instruments Classification Summary

On 1 January 2005, the Group adopted IAS 39 which requires the classification of financial instruments between four recognition principles: at fair value through profit or loss (comprising trading and designated), available-for-sale, held-to-maturity and loans and receivables. The face of the balance sheet now 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. Comparative balance sheet lines have been reclassified only to the extent that those assets or liabilities were treated as trading under UK GAAP for that period. In addition treasury bills have been disclosed under trading assets and investment securities, as appropriate, rather than as a separate category.

The Group's classification of its principal financial assets and liabilities (excluding derivatives) is summarised below:

|                                         | 2005                 |                                                                       |                                     |                                       |                                   |                    |
|-----------------------------------------|----------------------|-----------------------------------------------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|--------------------|
|                                         | Trading<br>\$million | Designated<br>at fair value<br>through profit or<br>loss<br>\$million | Available-<br>for-sale<br>\$million | Loans and<br>receivables<br>\$million | Held to-<br>maturity<br>\$million | Total<br>\$million |
| Loans and advances to banks             | 1,258                | –                                                                     | 30                                  | 21,671                                | –                                 | 22,959             |
| Loans and advances to customers         | 230                  | 156                                                                   | 105                                 | 111,686                               | –                                 | 112,177            |
| Treasury bills and other eligible bills | 2,223                | 492                                                                   | 10,199                              | –                                     | –                                 | 12,914             |
| Debt securities                         | 5,612                | 244                                                                   | 25,231                              | 1,264                                 | 215                               | 32,566             |
| Equity shares                           | 118                  | –                                                                     | 954                                 | –                                     | –                                 | 1,072              |
| Total assets at 31 December 2005        | 9,441                | 892                                                                   | 36,519                              | 134,621                               | 215                               | 181,688            |
| Total assets at 1 January 2005          | 6,064                | 1,902                                                                 | 30,451                              | 88,952                                | 1,040                             | 128,409            |

|                                       | Trading<br>\$million | Designated<br>at fair value<br>\$million | Amortised<br>cost<br>\$million | Total<br>\$million |
|---------------------------------------|----------------------|------------------------------------------|--------------------------------|--------------------|
| Due to banks                          | 1,102                | 337                                      | 18,834                         | 20,273             |
| Customer accounts                     | 394                  | 614                                      | 119,931                        | 120,939            |
| Debt securities in issue              | 1,068                | 433                                      | 25,913                         | 27,414             |
| Short positions                       | 2,345                | –                                        | –                              | 2,345              |
| Total liabilities at 31 December 2005 | 4,909                | 1,384                                    | 164,678                        | 170,971            |
| Total liabilities at 1 January 2005   | 3,708                | –                                        | 110,942                        | 114,650            |

## Notes to the Accounts continued

### 14. Financial Assets Held at Fair Value through Profit or Loss

Certain loans and advances and debt securities with fixed rates of interest are designated at fair value through profit or loss because 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. Designation of the loans and debt securities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost income recognition (a criteria of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of interest rate swaps to the corresponding loan and debt security.

The changes in fair value of both the underlying loans and advances and debt securities and interest rate swaps are monitored in a similar manner to trading book portfolios.

Upon adoption of IAS 32 and 39, the Group designated these assets at fair value as at 1 January 2005. The carrying amount of \$1,898 million under UK GAAP was revalued to \$1,902 million.

The fair value loss on assets designated at fair value through profit or loss was \$8 million.

|                                         | 2005                 |                                                                    | 2004               |                            |
|-----------------------------------------|----------------------|--------------------------------------------------------------------|--------------------|----------------------------|
|                                         | Trading<br>\$million | Designated at fair<br>value through<br>profit or loss<br>\$million | Total<br>\$million | Total Trading<br>\$million |
| Loans and advances to banks             | 1,258                | –                                                                  | 1,258              | 695                        |
| Loans and advances to customers         | 230                  | 156                                                                | 386                | 140                        |
| Treasury bills and other eligible bills | 2,223                | 492                                                                | 2,715              | 236                        |
| Debt securities                         | 5,612                | 244                                                                | 5,856              | 3,673                      |
| Equity shares                           | 118                  | –                                                                  | 118                | –                          |
|                                         | 9,441                | 892                                                                | 10,333             | 4,744                      |

#### Debt securities

|                                                 | 2005<br>\$million | 2004<br>\$million |
|-------------------------------------------------|-------------------|-------------------|
| Issued by public bodies:                        |                   |                   |
| Government securities                           | 1,632             | 1,792             |
| Other public sector securities                  | –                 | 1                 |
|                                                 | 1,632             | 1,793             |
| Issued by banks:                                |                   |                   |
| Certificates of deposit                         | 811               | 82                |
| Other debt securities                           | 1,028             | 777               |
|                                                 | 1,839             | 859               |
| Issued by corporate entities and other issuers: |                   |                   |
| Other debt securities                           | 2,385             | 1,021             |
| Total debt securities                           | 5,856             | 3,673             |
| Of which:                                       |                   |                   |
| Listed on a recognised UK exchange              | 537               | –                 |
| Listed elsewhere                                | 1,526             | 1,505             |
| Unlisted                                        | 3,793             | 2,168             |
|                                                 | 5,856             | 3,673             |

#### Equity securities

|          |     |   |
|----------|-----|---|
| Unlisted | 118 | – |
|----------|-----|---|

## 15. Derivative Financial Instruments

Derivatives are financial instruments that derive their value from changes 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.

On 1 January 2005 the Group adopted IAS 39. It requires all derivatives to be recognised as trading and recorded at fair value, with all revaluation gains recognised in profit or loss (except where cash flow hedging has been achieved, in which case changes in fair value go through reserves). For the comparatives UK GAAP has been applied. Under UK GAAP, derivatives held for hedging purposes are classified as non-trading and are not recorded on the balance sheet at fair value.

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount

of principal underlying the contract at the reporting date.

In respect of credit risk arising from the use of derivatives, the Group sets limits on net open positions. The amount of credit risk is the current positive fair value (asset) of the underlying contract. The credit risk is managed as part of the overall lending limits to banks and customers, together with potential exposures from market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. Exposures are not presented net in these accounts after 1 January 2005 as transactions are not usually settled on a net basis as required by IAS 39.

The Derivatives and Hedging section of the Financial Review on pages 35 and 36 explains the Group's risk management of derivative contracts and is incorporated in these financial statements accordingly.

|                                               | 2005                                          |                     |                          | 2004                                          |                     |                          |
|-----------------------------------------------|-----------------------------------------------|---------------------|--------------------------|-----------------------------------------------|---------------------|--------------------------|
|                                               | Notional<br>principal<br>amounts<br>\$million | Assets<br>\$million | Liabilities<br>\$million | Notional<br>principal<br>amounts<br>\$million | Assets<br>\$million | Liabilities<br>\$million |
| <b>Total derivatives</b>                      |                                               |                     |                          |                                               |                     |                          |
| <b>Foreign exchange derivative contracts:</b> |                                               |                     |                          |                                               |                     |                          |
| Forward foreign exchange contracts            | 326,053                                       | 5,392               | 5,884                    | 409,003                                       | 6,789               | 6,500                    |
| Currency swaps and options                    | 175,121                                       | 351                 | 487                      | 116,734                                       | 2,592               | 2,532                    |
| Exchange traded futures and options           | –                                             | –                   | –                        | 238                                           | –                   | –                        |
|                                               | 501,174                                       | 5,743               | 6,371                    | 525,975                                       | 9,381               | 9,032                    |
| <b>Interest rate derivative contracts:</b>    |                                               |                     |                          |                                               |                     |                          |
| Swaps                                         | 471,652                                       | 3,452               | 3,239                    | 411,722                                       | 3,376               | 3,129                    |
| Forward rate agreements and options           | 68,015                                        | 72                  | 160                      | 57,970                                        | 101                 | 127                      |
| Exchange traded futures and options           | 117,026                                       | 43                  | 27                       | 96,282                                        | 54                  | 54                       |
|                                               | 656,693                                       | 3,567               | 3,426                    | 565,974                                       | 3,531               | 3,310                    |
| <b>Credit derivative contracts</b>            | 9,374                                         | 45                  | 52                       | –                                             | –                   | –                        |
| <b>Equity and stock index options</b>         | 379                                           | 3                   | 3                        | –                                             | –                   | –                        |
| <b>Commodity derivative contracts</b>         | 4,642                                         | 12                  | 12                       | 6,030                                         | 33                  | 33                       |
| <b>Total derivatives</b>                      | 1,172,262                                     | 9,370               | 9,864                    | 1,097,979                                     | 12,945              | 12,375                   |
| <b>Effect of netting</b>                      |                                               | (6,271)             |                          |                                               | (7,563)             |                          |
| <b>Net credit risk on derivatives</b>         |                                               | 3,099               |                          |                                               | 5,382               |                          |

Under UK GAAP derivatives used for hedging purposes were recognised on balance sheet at their accrued amount. The 2004 comparative amounts in the table above include positive fair values of \$50 million and negative fair values of \$37 million that were not recognised on balance sheet.

## Notes to the Accounts continued

### 15. Derivative Financial Instruments continued

The Group uses derivatives primarily to mitigate interest rate and foreign exchange risk. Hedge accounting is applied to derivatives and hedged items when the criteria under IFRS have been met. The table below lists the types of derivatives that have achieved hedge accounting with the following two categories:

#### Fair value hedges

The Group uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rates on funding to match floating rates received on assets or exchanges fixed rates on assets to match the floating rates paid on funding. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value

changes of the hedged item, both of which are recognised in profit or loss.

#### Cash flow hedges

The Group uses swaps to manage the variability in future interest cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies. Gains and losses arising on the hedges are deferred in reserves until the variability on the cash flow affects profit or loss, at which time the gains or losses are transferred to profit or loss.

|                                                    | 2005                                 |                  |                       | 2004                                 |                  |                       |
|----------------------------------------------------|--------------------------------------|------------------|-----------------------|--------------------------------------|------------------|-----------------------|
|                                                    | Notional principal amounts \$million | Assets \$million | Liabilities \$million | Notional principal amounts \$million | Assets \$million | Liabilities \$million |
| <b>Derivatives held for hedging</b>                |                                      |                  |                       |                                      |                  |                       |
| <b>Derivatives designated as fair value hedges</b> |                                      |                  |                       |                                      |                  |                       |
| Swaps                                              | 6,123                                | 368              | 143                   | –                                    | –                | –                     |
|                                                    | 6,123                                | 368              | 143                   | –                                    | –                | –                     |
| <b>Derivatives designated as cash flow hedges</b>  |                                      |                  |                       |                                      |                  |                       |
| Swaps                                              | 3,581                                | –                | 24                    | –                                    | –                | –                     |
| Forward foreign exchange contracts                 | 802                                  | 4                | 23                    | –                                    | –                | –                     |
|                                                    | 4,383                                | 4                | 47                    | –                                    | –                | –                     |
| <b>Hedges under UK GAAP</b>                        |                                      |                  |                       |                                      |                  |                       |
| Swaps                                              | –                                    | –                | –                     | 2,304                                | 17               | 4                     |
| Forward rate agreements and options                | –                                    | –                | –                     | 495                                  | –                | –                     |
| Commodity derivative contracts                     | –                                    | –                | –                     | 6,030                                | 33               | 33                    |
| Total derivatives held for hedging                 | 10,506                               | 372              | 190                   | 8,829                                | 50               | 37                    |

**16. Loans and Advances to Banks**

|                                                                                  | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------------------|-------------------|-------------------|
| Loans and advances to banks                                                      | 22,982            | 17,446            |
| Individual impairment provision (note 19)                                        | (22)              | (52)              |
| Portfolio impairment provision (note 19)                                         | (1)               | –                 |
| Interest in suspense                                                             | –                 | (12)              |
|                                                                                  | 22,959            | 17,382            |
| Of which: loans and advances held at fair value through profit or loss (note 14) | (1,258)           | (695)             |
|                                                                                  | 21,701            | 16,687            |

**17. Loans and Advances to Customers**

|                                                                                  | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------------------|-------------------|-------------------|
| Loans and advances to customers                                                  | 113,908           | 74,463            |
| Individual impairment provision (note 19)                                        | (1,364)           | (1,407)           |
| Portfolio impairment provision (note 19)                                         | (367)             | –                 |
| General provisions (note 19)                                                     | –                 | (335)             |
| Interest in suspense                                                             | –                 | (562)             |
|                                                                                  | 112,177           | 72,159            |
| Of which: loans and advances held at fair value through profit or loss (note 14) | (386)             | (140)             |
|                                                                                  | 111,791           | 72,019            |

The Group has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of \$65 million (2004: \$79 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of \$65 million (2004: \$79 million) arising from the securitisations.

The Group's exposure to credit risk is concentrated in Hong Kong, Korea and the 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 \$22.5 billion (2004: \$nil) and Hong Kong residents of approximately \$12.0 billion (2004: \$12.2 billion).

## Notes to the Accounts continued

### 17. Loans and Advances to Customers continued

The following table shows loans and advances to customers by each principal category of borrower's business or industry:

|                                            | 2005                          |                                |                              | 2004               |                    |
|--------------------------------------------|-------------------------------|--------------------------------|------------------------------|--------------------|--------------------|
|                                            | One year or less<br>\$million | One to five years<br>\$million | Over five years<br>\$million | Total<br>\$million | Total<br>\$million |
| Loans to individuals                       |                               |                                |                              |                    |                    |
| Mortgages                                  | 4,756                         | 9,598                          | 29,717                       | 44,071             | 22,018             |
| Other                                      | 8,352                         | 4,666                          | 1,572                        | 14,590             | 10,001             |
| Small and medium enterprises               | 5,883                         | 1,687                          | 1,921                        | 9,491              | 3,479              |
| Consumer Banking                           | 18,991                        | 15,951                         | 33,210                       | 68,152             | 35,498             |
| Agriculture, forestry and fishing          | 546                           | 81                             | 19                           | 646                | 656                |
| Construction                               | 602                           | 99                             | 12                           | 713                | 615                |
| Commerce                                   | 6,518                         | 481                            | 78                           | 7,077              | 6,325              |
| Electricity, gas and water                 | 684                           | 198                            | 680                          | 1,562              | 1,394              |
| Financing, insurance and business services | 6,552                         | 1,706                          | 628                          | 8,886              | 9,012              |
| Loans to governments                       | 4,507                         | 197                            | 170                          | 4,874              | 2,105              |
| Mining and quarrying                       | 699                           | 216                            | 213                          | 1,128              | 1,527              |
| Manufacturing                              | 8,477                         | 2,068                          | 798                          | 11,343             | 9,326              |
| Commercial real estate                     | 2,433                         | 974                            | 73                           | 3,480              | 2,126              |
| Transport, storage and communication       | 1,544                         | 872                            | 974                          | 3,390              | 2,962              |
| Other                                      | 888                           | 354                            | 51                           | 1,293              | 948                |
| Wholesale Banking                          | 33,450                        | 7,246                          | 3,696                        | 44,392             | 36,996             |
| Portfolio impairment provision             |                               |                                |                              | (367)              | –                  |
| General provision                          |                               |                                |                              | –                  | (335)              |
|                                            |                               |                                |                              | 112,177            | 72,159             |

### 18. Assets Leased to Customers

|                              | 2005<br>\$million | 2004<br>\$million |
|------------------------------|-------------------|-------------------|
| Finance leases               | 298               | 181               |
| Instalment credit agreements | 851               | 1,052             |
|                              | 1,149             | 1,233             |

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$201 million (2004: \$111 million).

|                                                             | 2005<br>\$million | 2004<br>\$million |
|-------------------------------------------------------------|-------------------|-------------------|
| Minimum lease receivables under finance leases falling due: |                   |                   |
| Within one year                                             | 73                | 67                |
| Later than one year and less than five years                | 266               | 92                |
| After five years                                            | 23                | 30                |
|                                                             | 362               | 189               |
| Interest income relating to future periods                  | (64)              | (8)               |
| Present value of finance lease receivables                  | 298               | 181               |

## 19. Impairment Provisions on Loans and Advances

|                                                       | 2005               | 2004                  |                      |
|-------------------------------------------------------|--------------------|-----------------------|----------------------|
|                                                       | Total<br>\$million | Specific<br>\$million | General<br>\$million |
| Provisions held at beginning of year                  | 1,794              | 1,661                 | 425                  |
| Adoption of IAS 39 <sup>1</sup>                       | (12)               | –                     | –                    |
| At 1 January                                          | 1,782              | 1,661                 | 425                  |
| Exchange translation differences                      | (25)               | 13                    | –                    |
| Acquisitions                                          | 407                | 36                    | –                    |
| Amount utilised                                       | –                  | –                     | (39)                 |
| Amounts written off                                   | (871)              | (607)                 | –                    |
| Recoveries of amounts previously written off          | 153                | 95                    | –                    |
| Discount unwinding                                    | (48)               | –                     | –                    |
| Other                                                 | 24                 | (8)                   | 4                    |
| New provisions                                        | 915                | 609                   | –                    |
| Recoveries/provisions no longer required <sup>1</sup> | (583)              | (340)                 | (55)                 |
| Net charge against/(credit to) profit <sup>2</sup>    | 332                | 269                   | (55)                 |
| Provisions held at 31 December <sup>3</sup>           | 1,754              | 1,459                 | 335                  |

1. The opening balance at 1 January 2005 was adjusted with the adoption of IAS 39. The individual impairment provision increased by \$90 million. The general provision recorded under UK GAAP was reversed. Under IAS 39, a portfolio impairment provision of \$233 million was created.
  2. The net charge of \$332 million comprises \$255 million individual impairment charge and \$77 million portfolio impairment charge. It excludes provision releases of \$13 million for credit commitments (note 34). The total impairment charge on loans and advances and other credit risks is \$319 million.
  3. The provision of \$1,754 million held at 31 December 2005 comprises \$1,386 million individual impairment provision and \$368 million portfolio impairment provision.
- The following table shows impairment provisions by each principal category of borrowers' business or industry:

|                                                                                   | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------------------------------------------------------|-------------------|-------------------|
| Loans to individuals                                                              |                   |                   |
| Mortgages                                                                         | 107               | 61                |
| Other                                                                             | 70                | 66                |
| Small and medium enterprises                                                      | 351               | 51                |
| Consumer Banking                                                                  | 528               | 178               |
| Agriculture, forestry and fishing                                                 | 32                | 39                |
| Construction                                                                      | 24                | 40                |
| Commerce                                                                          | 129               | 386               |
| Electricity, gas and water                                                        | 16                | 11                |
| Financing, insurance and business services                                        | 105               | 101               |
| Loans to governments                                                              | –                 | 44                |
| Mining and quarrying                                                              | 26                | 34                |
| Manufacturing                                                                     | 355               | 435               |
| Commercial real estate                                                            | 16                | 3                 |
| Transport, storage and communication                                              | 53                | 49                |
| Other                                                                             | 80                | 87                |
| Wholesale Banking                                                                 | 836               | 1,229             |
| Individual impairment provision against loans and advances to customers (note 17) | 1,364             | 1,407             |
| Individual impairment provision against loans and advances to banks (note 16)     | 22                | 52                |
| Portfolio impairment provision/general provision (note 16, 17)                    | 368               | 335               |
| Total impairment provisions on loans and advances                                 | 1,754             | 1,794             |

## Notes to the Accounts continued

### 20. Non-Performing Loans and Advances

|                                   | 2005                       |                    |                    | 2004                       |                    |                    |
|-----------------------------------|----------------------------|--------------------|--------------------|----------------------------|--------------------|--------------------|
|                                   | SCNB<br>(LMA)<br>\$million | Other<br>\$million | Total<br>\$million | SCNB<br>(LMA)<br>\$million | Other<br>\$million | Total<br>\$million |
| Non-performing loans and advances | –                          | 2,694              | 2,694              | 351                        | 2,586              | 2,937              |
| Impairment provision              | –                          | (1,754)            | (1,754)            | (115)                      | (1,344)            | (1,459)            |
| Interest in suspense              | –                          | –                  | –                  | –                          | (574)              | (574)              |
|                                   | –                          | 940                | 940                | 236                        | 668                | 904                |

Net non-performing loans and advances comprises loans and advances to banks \$24 million (31 December 2004: \$55 million) and loans and advances to customers \$916 million (31 December 2004: \$849 million).

The Group acquired Standard Chartered Nakornthon Bank (SCNB) in September 1999. Under the terms of the acquisition, non-performing loans were subject to a Loan Management Agreement (LMA) with a Thai Government Agency (The Financial Institutions Development Fund (FIDF)) which guaranteed certain losses. The LMA expired in 2004 and the losses guaranteed by FIDF have been settled during 2005.

Accordingly, the balances have been derecognised and are shown as \$nil under SCNB in the table above.

Impairment provisions cover 65 per cent of non-performing lending to customers (2004: 74 per cent, excluding the SCNB non-performing loan portfolio of \$351 million subject to the LMA).

Impairment provision for 2005 includes \$368 million of portfolio impairment provision and 2004 excludes \$335 million of general provision under UK GAAP.

### 21. Investment Securities

|                                   | 2005                          |                                 |                                    | 2004               |                    |
|-----------------------------------|-------------------------------|---------------------------------|------------------------------------|--------------------|--------------------|
|                                   | Held-to-maturity<br>\$million | Available-for-sale<br>\$million | Loans and receivables<br>\$million | Total<br>\$million | Total<br>\$million |
| Treasury and other eligible bills | –                             | 10,199                          | –                                  | 10,199             | 4,189              |
| Debt securities                   | 215                           | 25,231                          | 1,264                              | 26,710             | 29,169             |
| Equity securities                 | –                             | 954                             | –                                  | 954                | 253                |
|                                   | 215                           | 36,384                          | 1,264                              | 37,863             | 33,611             |

|                                                 | 2005                          |                                 |                                    |                                |                             |                    |
|-------------------------------------------------|-------------------------------|---------------------------------|------------------------------------|--------------------------------|-----------------------------|--------------------|
|                                                 | Debt Securities               |                                 |                                    | Equity securities<br>\$million | Treasury bills<br>\$million | Total<br>\$million |
|                                                 | Held-to-maturity<br>\$million | Available-for-sale<br>\$million | Loans and receivables<br>\$million |                                |                             |                    |
| Issued by public bodies:                        |                               |                                 |                                    |                                |                             |                    |
| Government securities                           | 215                           | 8,618                           | –                                  |                                |                             |                    |
| Other public sector securities                  | –                             | 1,418                           | –                                  |                                |                             |                    |
|                                                 | 215                           | 10,036                          | –                                  |                                |                             |                    |
| Issued by banks:                                |                               |                                 |                                    |                                |                             |                    |
| Certificates of deposit                         | –                             | 6,330                           | –                                  |                                |                             |                    |
| Other debt securities                           | –                             | 5,973                           | –                                  |                                |                             |                    |
|                                                 | –                             | 12,303                          | –                                  |                                |                             |                    |
| Issued by corporate entities and other issuers: |                               |                                 |                                    |                                |                             |                    |
| Other debt securities                           | –                             | 2,892                           | 1,264                              |                                |                             |                    |
|                                                 | –                             | 2,892                           | 1,264                              |                                |                             |                    |
| Total debt securities                           | 215                           | 25,231                          | 1,264                              |                                |                             |                    |
| Listed on a recognised UK exchange              | –                             | 5,944                           | –                                  | 23                             | –                           | 5,967              |
| Listed elsewhere                                | 3                             | 6,776                           | –                                  | 235                            | 7,005                       | 14,019             |
| Unlisted                                        | 212                           | 12,511                          | 1,264                              | 696                            | 3,194                       | 17,877             |
|                                                 | 215                           | 25,231                          | 1,264                              | 954                            | 10,199                      | 37,863             |

## 21. Investment Securities continued

|                                                 | 2004                         |                                |                             |                    |
|-------------------------------------------------|------------------------------|--------------------------------|-----------------------------|--------------------|
|                                                 | Debt securities<br>\$million | Equity securities<br>\$million | Treasury bills<br>\$million | Total<br>\$million |
| Issued by public bodies:                        |                              |                                |                             |                    |
| Government securities                           | 8,477                        |                                |                             |                    |
| Other public sector securities                  | 1,263                        |                                |                             |                    |
|                                                 | 9,740                        |                                |                             |                    |
| Issued by banks:                                |                              |                                |                             |                    |
| Certificates of deposit                         | 6,076                        |                                |                             |                    |
| Other debt securities                           | 6,678                        |                                |                             |                    |
|                                                 | 12,754                       |                                |                             |                    |
| Issued by corporate entities and other issuers: |                              |                                |                             |                    |
| Other debt securities                           | 6,675                        |                                |                             |                    |
|                                                 | 6,675                        |                                |                             |                    |
| Total debt securities                           | 29,169                       |                                |                             |                    |
| Listed on a recognised UK exchange              | 5,651                        | –                              | –                           | 5,651              |
| Listed elsewhere                                | 6,700                        | 88                             | –                           | 6,788              |
| Unlisted                                        | 16,818                       | 165                            | 4,189                       | 21,172             |
|                                                 | 29,169                       | 253                            | 4,189                       | 33,611             |

The change in the carrying book amount of investment securities comprised:

|                                        | 2005                         |                                |                             |                    | 2004                         |                                |                             |                    |
|----------------------------------------|------------------------------|--------------------------------|-----------------------------|--------------------|------------------------------|--------------------------------|-----------------------------|--------------------|
|                                        | Debt securities<br>\$million | Equity securities<br>\$million | Treasury bills<br>\$million | Total<br>\$million | Debt securities<br>\$million | Equity securities<br>\$million | Treasury bills<br>\$million | Total<br>\$million |
| Opening                                | 29,169                       | 253                            | 4,189                       | 33,611             | 20,801                       | 359                            | 5,533                       | 26,693             |
| Adoption of IAS 39*                    | (1,571)                      | 39                             | (251)                       | (1,783)            | –                            | –                              | –                           | –                  |
| At 1 January                           | 27,598                       | 292                            | 3,938                       | 31,828             | 20,801                       | 359                            | 5,533                       | 26,693             |
| Exchange translation differences       | (1,026)                      | 1                              | (154)                       | (1,179)            | (16)                         | 1                              | 20                          | 5                  |
| Acquisitions                           | 2,327                        | 289                            | 5,622                       | 8,238              | –                            | –                              | –                           | –                  |
| Additions                              | 33,655                       | 658                            | 13,443                      | 47,756             | 79,813                       | 121                            | 9,396                       | 89,330             |
| Transfers                              | 35                           | (35)                           | –                           | –                  | –                            | –                              | –                           | –                  |
| Maturities and disposals               | (35,748)                     | (351)                          | (12,599)                    | (48,698)           | (71,452)                     | (228)                          | (10,778)                    | (82,458)           |
| Provisions                             | 1                            | (1)                            | (33)                        | (33)               | –                            | –                              | –                           | –                  |
| Changes in fair value                  | (107)                        | 104                            | (29)                        | (32)               | –                            | –                              | –                           | –                  |
| Amortisation of discounts and premiums | (25)                         | (3)                            | 11                          | (17)               | 23                           | –                              | 18                          | 41                 |
| At 31 December                         | 26,710                       | 954                            | 10,199                      | 37,863             | 29,169                       | 253                            | 4,189                       | 33,611             |

\* From 1 January 2005 all available-for-sale investments are held at fair value in accordance with IFRSs, with corresponding opening adjustments.

Treasury bills and other eligible bills include \$2,347 million (2004: \$nil) of bills sold subject to sale and repurchase transactions.

Debt securities include \$811 million (2004: \$1,068 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2005, unamortised premiums on debt securities held for investment purposes amounted to \$59 million

(31 December 2004: \$135 million) and unamortised discounts amounted to \$41 million (31 December 2004: \$356 million).

The valuation of listed securities is at market value and of unlisted securities is at fair value. Income from listed equity shares amounted to \$32 million (31 December 2004: \$4 million) and income from unlisted equity shares amounted to \$30 million (31 December 2004: \$7 million).

## Notes to the Accounts continued

### 22. Investments in Subsidiary Undertakings, Joint Ventures and Associates

|                     | Historical cost<br>\$million |
|---------------------|------------------------------|
| At 1 January 2005   | 4,292                        |
| Additions           | 3,681                        |
| At 31 December 2005 | 7,973                        |

At 31 December 2005, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

| Country and place of incorporation or registration                  | Main areas of operation                                                                              | Group interest in ordinary share capital |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|------------------------------------------|
| Standard Chartered Bank, England                                    | United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa | 100%                                     |
| Standard Chartered First Bank Korea Limited, Korea                  | Korea                                                                                                | 100%                                     |
| Standard Chartered Bank Malaysia Berhad, Malaysia                   | Malaysia                                                                                             | 100%                                     |
| Standard Chartered Bank (Hong Kong) Limited, Hong Kong              | Hong Kong                                                                                            | 100%                                     |
| Standard Chartered Bank (Thai) Public Company Limited, Thailand*    | Thailand                                                                                             | 99.8%                                    |
| Standard Chartered Capital Management (Jersey) LLC, United States   | United States                                                                                        | 100%                                     |
| Standard Chartered Receivables (UK) Limited, England and Wales      | United Kingdom                                                                                       | 100%                                     |
| Standard Chartered Financial Investments Limited, England and Wales | United Kingdom                                                                                       | 100%                                     |
| Standard Chartered Debt Trading Limited, England and Wales          | Hong Kong                                                                                            | 100%                                     |

\*formerly Standard Chartered Nakornthon Bank Public Company Limited, Thailand

Details of all Group companies will be filed with the next annual return of the Company.

#### Joint venture

The Group has a joint venture arrangement which holds a majority investment in PT Bank Permata Tbk, in Indonesia. The Group proportionately consolidates its 31.55 per cent share line by line. Contingent liabilities set out in note 44, includes \$11 million relating to this joint venture arrangement. These mainly comprise

banking acceptances, guarantees and irrevocable letters of credit.

There are no capital commitments of the venturers.

Related party transactions are disclosed in note 51.

The following amounts have been included in the consolidated accounts of the Group:

|                                             | 2005<br>\$million | 2004<br>\$million |
|---------------------------------------------|-------------------|-------------------|
| Total assets                                | 1,231             | 1,179             |
| Total liabilities                           | (1,032)           | (992)             |
|                                             | 199               | 187               |
| Income                                      | 69                | 8                 |
| Expenses                                    | (62)              | (5)               |
| Impairment                                  | 2                 | –                 |
| Operating profit                            | 9                 | 3                 |
| Tax                                         | (2)               | (1)               |
| Share of post tax result from joint venture | 7                 | 2                 |

## 22. Investments in Subsidiary Undertakings, Joint Ventures and Associates continued

### Interests in associates

|                   | 2005<br>\$million | 2004<br>\$million |
|-------------------|-------------------|-------------------|
| At 1 January      | –                 | –                 |
| Additions         | 128               | –                 |
| At 31 December    | 128               | –                 |
| <hr/>             |                   |                   |
| Total assets      | 128               | –                 |
| Total liabilities | –                 | –                 |
|                   | 128               | –                 |

On 15 August 2005, the Group invested \$128 million in establishing China Bohai Bank.

The Group's investment in China Bohai Bank is less than 20% but is considered to be an associate because of the significant influence the Group has over the management and financial and

operating policies. Its operations commence in 2006 and as such there is no share of income and expenses for 2005.

The reporting date of the associate is coterminous with the Group.

## 23. Business Combinations

### 2005 acquisitions

On 15 April 2005, the Group acquired 100 per cent of the share capital of Korea First Bank (now called SC First Bank), a major banking group in the Republic of Korea (South Korea). The acquired business contributed operating income of \$859 million and profit before tax of \$227 million to the Group for the period from 15 April 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, SCFB would have added approximately \$1,150 million to Group operating income and \$300 million to profit before tax for the period.

|                                                             | \$million |
|-------------------------------------------------------------|-----------|
| Details of net assets acquired and goodwill are as follows: |           |
| Purchase consideration:                                     |           |
| – cash paid                                                 | 3,338     |
| – direct costs relating to the acquisition                  | 35        |
| Total purchase consideration                                | 3,373     |
| Fair value of net assets acquired                           | 1,635     |
| Goodwill                                                    | 1,738     |

The goodwill is attributable to the significant synergies expected to arise from the development of SCFB within the Standard Chartered Group and those intangibles such as workforce in place which are not recognised separately.

## Notes to the Accounts continued

### 23. Business Combinations continued

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

|                                                                 | Fair value<br>\$million | Acquiree's<br>carrying<br>amount<br>\$million |
|-----------------------------------------------------------------|-------------------------|-----------------------------------------------|
| Cash and balances at central banks*                             | 2,321                   | 2,321                                         |
| Derivative financial instruments                                | 27                      | 27                                            |
| Loans and advances to banks                                     | 890                     | 890                                           |
| Loans and advances to customers                                 | 31,455                  | 31,983                                        |
| Investment securities                                           | 8,153                   | 8,139                                         |
| Intangibles other than goodwill                                 | 229                     | 58                                            |
| Property, plant and equipment                                   | 1,088                   | 1,109                                         |
| Deferred tax assets                                             | 97                      | 15                                            |
| Other assets                                                    | 887                     | 884                                           |
| <b>Total assets</b>                                             | <b>45,147</b>           | <b>45,426</b>                                 |
| Deposits by banks                                               | 2,782                   | 2,782                                         |
| Customer accounts                                               | 18,923                  | 19,328                                        |
| Financial liabilities held at fair value through profit or loss | 121                     | –                                             |
| Derivative financial instruments                                | 240                     | 240                                           |
| Debt securities in issue                                        | 16,871                  | 17,243                                        |
| Other liabilities                                               | 2,962                   | 2,239                                         |
| Subordinated liabilities and other borrowed funds               | 1,280                   | 1,514                                         |
| <b>Total liabilities</b>                                        | <b>43,179</b>           | <b>43,346</b>                                 |
| Minority interest                                               | 333                     | 298                                           |
| <b>Net assets acquired</b>                                      | <b>1,635</b>            | <b>1,782</b>                                  |
| Purchase consideration settled in cash                          | 3,373                   |                                               |
| Cash and cash equivalents in subsidiary acquired                | (2,378)                 |                                               |
| <b>Cash outflow on acquisition</b>                              | <b>995</b>              |                                               |

\* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts contain some provisional balances which will be finalised in the 2006 accounts.

The intangible assets acquired as part of the acquisition on SCFB can be analysed as follows:

|                        | \$million  |
|------------------------|------------|
| Brand names            | 86         |
| Customer relationships | 24         |
| Core deposits          | 91         |
| Capitalised software   | 28         |
| <b>Total</b>           | <b>229</b> |

The Group acquired a further 24.97 per cent of Standard Chartered Nakornthon Bank Public Company in Thailand for \$98 million giving rise to goodwill of \$64 million and 100 per cent of Sumitomo Mitsui Banking Corporation in India for \$30 million giving rise to negative goodwill of \$6 million which has been recognised through the Consolidated Income Statement.

## 23. Business Combinations continued

### 2004 acquisitions

Fair value adjustments for consistent accounting policies principally relate to alignment of policies on depreciation of tangible fixed assets and measurement of credit risk.

Acquisitions in the table below include the additional 25 per cent stake in Standard Chartered Bank Nepal Limited, 100 per cent ownership of Advantage Limited, the 31.55 per cent stake in PT Bank Permata Tbk and the ANZ Project Finance business (excluding Australia and Non-Japan Asia).

The effective date of acquisition of the additional 25 per cent stake in Standard Chartered Bank Nepal Limited was 19 August 2004. The acquisition has been accounted for using the acquisition method. The post-acquisition profit after taxation and minority interests was \$1 million for 2004.

The effective date of acquisition of Advantage Limited ('Advantage') was 27 August 2004. It has been accounted for using the acquisition method. The post acquisition profit after taxation of Advantage was \$4 million for 2004.

The total consideration payable for the shares in Advantage was HKD 980 million, calculated as a multiple of the audited net

book value of Advantage as at 30 June 2004, adjusted to reflect the current market value of certain properties and any shortfall in the net assets of an associated company ('Consideration'). A deposit of HKD 100 million was paid by Standard Chartered Links (Hong Kong) Limited on signing of the Agreement on 28 June 2004.

An amount equal to 90 per cent of the Consideration (less the deposit) was paid in cash on completion of the Agreement with the balance paid on 31 December 2005. The consideration was fully funded from the Group's internal resources.

The effective date of acquisition of PT Bank Permata Tbk was 10 December 2004. It has been accounted for using the acquisition method. The acquisition is being accounted as a joint venture and proportionately consolidated. The Group's share of post acquisition profits after amortisation of goodwill and taxation was \$2 million for 2004.

The effective date of acquisition of the ANZ Project Finance business (excluding Australia and Non-Japan Asia) was 10 December 2004. It has been accounted for using the acquisition method. The post-acquisition loss after taxation was \$1 million for 2004, including integration expenses of \$2 million.

Details of net assets acquired and goodwill are as follows:

|                                            | \$million |
|--------------------------------------------|-----------|
| Purchase consideration:                    |           |
| – cash paid                                | 328       |
| – direct costs relating to the acquisition | 5         |
| Total purchase consideration               | 333       |
| Fair value of net assets acquired          | 240       |
| Goodwill                                   | 93        |

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

|                                                  | Fair value<br>\$million | Acquiree's<br>carrying<br>amount<br>\$million |
|--------------------------------------------------|-------------------------|-----------------------------------------------|
| Cash and balances at central banks*              | 26                      | 26                                            |
| Loans and advances to banks and customers        | 1,518                   | 1,518                                         |
| Investment securities                            | 113                     | 113                                           |
| Interests in joint ventures                      | 192                     | 192                                           |
| Property, plant and equipment                    | 11                      | 12                                            |
| Other assets                                     | 82                      | 90                                            |
| Total assets                                     | 1,942                   | 1,951                                         |
| Deposits by banks and customer accounts          | 940                     | 940                                           |
| Other liabilities                                | 754                     | 754                                           |
| Total liabilities                                | 1,694                   | 1,694                                         |
| Minority interests                               | (8)                     |                                               |
| Net assets acquired                              | 240                     |                                               |
| Purchase consideration settled in cash           | 333                     |                                               |
| Cash and cash equivalents in subsidiary acquired | (26)                    |                                               |
| Cash outflow on acquisition                      | 307                     |                                               |

\* Cash and balances at central banks include amounts subject to regulatory restrictions.

## Notes to the Accounts continued

### 24. Goodwill and Intangible Assets

|                                   | 2005                  |                                      |                       |                    | 2004                  |                                      |                       |                    |
|-----------------------------------|-----------------------|--------------------------------------|-----------------------|--------------------|-----------------------|--------------------------------------|-----------------------|--------------------|
|                                   | Goodwill<br>\$million | Acquired<br>intangibles<br>\$million | Software<br>\$million | Total<br>\$million | Goodwill<br>\$million | Acquired<br>intangibles<br>\$million | Software<br>\$million | Total<br>\$million |
| <b>Cost</b>                       |                       |                                      |                       |                    |                       |                                      |                       |                    |
| At 1 January                      | 2,643                 | –                                    | 466                   | 3,109              | 2,500                 | –                                    | 492                   | 2,992              |
| Exchange translation differences  | 8                     | 2                                    | (3)                   | 7                  | –                     | –                                    | 4                     | 4                  |
| Acquisitions                      | 1,802                 | 216                                  | 28                    | 2,046              | 210                   | –                                    | –                     | 210                |
| Additions                         | –                     | –                                    | 88                    | 88                 | –                     | –                                    | 83                    | 83                 |
| Disposals                         | –                     | –                                    | (14)                  | (14)               | –                     | –                                    | (18)                  | (18)               |
| Amounts written off               | (2)                   | –                                    | (103)                 | (105)              | (67)                  | –                                    | (95)                  | (162)              |
| At 31 December                    | 4,451                 | 218                                  | 462                   | 5,131              | 2,643                 | –                                    | 466                   | 3,109              |
| <b>Provision for amortisation</b> |                       |                                      |                       |                    |                       |                                      |                       |                    |
| At 1 January                      | 514                   | –                                    | 242                   | 756                | 514                   | –                                    | 216                   | 730                |
| Exchange translation differences  | –                     | –                                    | (2)                   | (2)                | –                     | –                                    | –                     | –                  |
| Amortisation for the period       | –                     | 32                                   | 125                   | 157                | –                     | –                                    | 123                   | 123                |
| Disposals                         | –                     | –                                    | (4)                   | (4)                | –                     | –                                    | (2)                   | (2)                |
| Amounts written off               | –                     | –                                    | (97)                  | (97)               | –                     | –                                    | (95)                  | (95)               |
| At 31 December                    | 514                   | 32                                   | 264                   | 810                | 514                   | –                                    | 242                   | 756                |
| Net book value                    | 3,937                 | 186                                  | 198                   | 4,321              | 2,129                 | –                                    | 224                   | 2,353              |

#### Acquired intangibles comprises:

|                        |     |
|------------------------|-----|
| Core deposits          | 77  |
| Customer relationships | 22  |
| Brand trademarks       | 82  |
| Licences               | 5   |
|                        | 186 |

Acquired intangibles and software have finite lives that are amortised over their economic useful life and charged through the 'amortisation and depreciation' line in the income statement. The estimated useful life of software is three to five years. Acquired intangibles were acquired as part of the acquisitions of SCFB and PT Bank Permata Tbk and are amortised over four to sixteen years. Software results from capitalised internal costs in developing programmes for the operation of the Group's computer systems.

In the transition to IFRS, all goodwill amortisation recorded since 1 January 2004 was reversed. This included goodwill amortisation relating to Banco Standard Chartered in Latin America and the Standard Chartered Bank SAL in the Lebanon. The amortisation of the carrying amount of this goodwill would have fully amortised by 2005. In the 2004 IFRS comparatives, an impairment charge of \$67 million has been recorded to carry related goodwill at \$nil.

## 24. Goodwill and Intangible Assets continued

Significant items of goodwill arising on acquisitions (after foreign exchange effects) has been allocated to the following cash generating units for the purposes of impairment testing:

| Acquisition             | Cash Generating Unit                               | Goodwill<br>\$million |
|-------------------------|----------------------------------------------------|-----------------------|
| SCFB                    | Korean business                                    | 1,758                 |
| Manhattan Card Business | Credit card and personal loan – Asia, India & MESA | 896                   |
| Grindlays (India)       | India business                                     | 370                   |
| Grindlays (MESA)        | MESA business                                      | 368                   |
| SC Nakornthon           | Thailand business                                  | 264                   |
| Permata                 | Group's share of Permata                           | 105                   |
| Other                   |                                                    | 176                   |
|                         |                                                    | <b>3,937</b>          |

All recoverable amounts were measured based on value in use. The key assumptions and approach to determining value in use calculations, as set out below, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year and extrapolated for a further 19 years using steady growth rates. Where these rates are different from available market data on long-term rates, that fact is stated below. Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

### SCFB

SCFB was acquired in April 2005 with initial goodwill recognised of \$1,738 million. It comprises Consumer and Wholesale Banking operations in Korea.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of Korea. A discount rate of 13.5 per cent was used.

### Manhattan Card Business

Manhattan Card Business was acquired in 2000 with initial goodwill recognised of \$1,061 million. This was amortised to \$892 million under UK GAAP until 31 December 2003. The business comprises a credit card and a personal loans business across Asia, India and MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of the world. A discount rate of 10.1 per cent was used.

### Grindlays (India)

Grindlays (India) was acquired in 2000 with initial goodwill recognised of \$446 million. This was amortised to \$366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in India.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of India. A discount rate of 14.6 per cent was used.

### Grindlays (MESA)

Grindlays (MESA) was acquired in 2000 with initial goodwill recognised of \$446 million. This was amortised to \$366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long term forecast GDP growth of MESA. A discount rate of 13.7 per cent was used.

### SC Nakornthon

75 per cent of SC Nakornthon was acquired in 1999 with initial goodwill recognised of \$222 million. This was amortised to \$204 million under UK GAAP until 31 December 2003. In 2005 the Group acquired the remaining 24.97 per cent, increasing goodwill to \$272 million. The business comprises Consumer and Wholesale Banking operations.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of Thailand. A discount rate of 17.4 per cent was used.

### Permata

31.55 per cent of Permata was acquired in 2004 with initial goodwill recognised of \$115 million. This business comprises Consumer and Wholesale Banking operations in Indonesia.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of Indonesia. A discount rate of 17.8 per cent was used.

## Notes to the Accounts continued

### 25. Property, Plant and Equipment

|                                                    | 2005                  |                        |                    | 2004                  |                        |                    |
|----------------------------------------------------|-----------------------|------------------------|--------------------|-----------------------|------------------------|--------------------|
|                                                    | Premises<br>\$million | Equipment<br>\$million | Total<br>\$million | Premises<br>\$million | Equipment<br>\$million | Total<br>\$million |
| <b>Cost or valuation</b>                           |                       |                        |                    |                       |                        |                    |
| At 1 January                                       | 653                   | 337                    | 990                | 616                   | 386                    | 1,002              |
| Exchange translation differences                   | –                     | (6)                    | (6)                | 5                     | 10                     | 15                 |
| Additions                                          | 70                    | 65                     | 135                | 83                    | 28                     | 111                |
| Acquisitions                                       | 1,052                 | 36                     | 1,088              | 11                    | –                      | 11                 |
| Disposals and fully depreciated assets written off | (26)                  | (66)                   | (92)               | (67)                  | (85)                   | (152)              |
| Other                                              | (55)                  | 48                     | (7)                | 5                     | (2)                    | 3                  |
| At 31 December                                     | 1,694                 | 414                    | 2,108              | 653                   | 337                    | 990                |
| <b>Depreciation</b>                                |                       |                        |                    |                       |                        |                    |
| Accumulated at 1 January                           | 180                   | 255                    | 435                | 137                   | 261                    | 398                |
| Exchange translation differences                   | (4)                   | (6)                    | (10)               | 4                     | 6                      | 10                 |
| Charge for the year                                | 53                    | 73                     | 126                | 47                    | 68                     | 115                |
| Attributable to assets sold or written off         | (22)                  | (62)                   | (84)               | (21)                  | (79)                   | (100)              |
| Other                                              | (30)                  | 27                     | (3)                | 12                    | (1)                    | 11                 |
| Impairment                                         | –                     | –                      | –                  | 1                     | –                      | 1                  |
| Accumulated at 31 December                         | 177                   | 287                    | 464                | 180                   | 255                    | 435                |
| Net book amount at 31 December                     | 1,517                 | 127                    | 1,644              | 473                   | 82                     | 555                |

|                                               | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------------------|-------------------|-------------------|
| <b>Premises – analysis of net book amount</b> |                   |                   |
| Freehold                                      | 1,183             | 150               |
| Long leasehold                                | 69                | 73                |
| Short leasehold                               | 265               | 250               |
|                                               | 1,517             | 473               |

In the transition to IFRS the Group ceased revaluing premises and now carries the revalued amounts as at 1 January 2004 as deemed cost.

Assets held under finance leases have the following net book amount:

|                        | 2005                  |                        | 2004                  |                        |
|------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                        | Premises<br>\$million | Equipment<br>\$million | Premises<br>\$million | Equipment<br>\$million |
| Cost                   | 48                    | 7                      | 45                    | 6                      |
| Aggregate depreciation | (3)                   | (5)                    | (2)                   | (4)                    |
| Net book amount        | 45                    | 2                      | 43                    | 2                      |

## 25. Property, Plant and Equipment continued

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

|                                                          | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------|-------------------|-------------------|
| Minimum lease payments under finance leases falling due: |                   |                   |
| Within one year                                          | 1                 | 2                 |
| Later than one year and less than five years             | 2                 | 2                 |
| After five years                                         | –                 | –                 |
|                                                          | 3                 | 4                 |
| Future finance charges on finance leases                 | –                 | (1)               |
| Present value of finance lease liabilities               | 3                 | 3                 |

## 26. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period:

|                                   | At<br>1 January<br>2005<br>\$million | Adoption of<br>IAS 32/39<br>\$million | At<br>1 January<br>2005<br>\$million | Exchange<br>translation<br>differences<br>\$million | Acquisitions<br>\$million | Charge/<br>(credit) to<br>profit<br>\$million | (Credit) to<br>equity<br>\$million | At 31<br>December<br>2005<br>\$million |
|-----------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|-----------------------------------------------------|---------------------------|-----------------------------------------------|------------------------------------|----------------------------------------|
| Deferred taxation comprises:      |                                      |                                       |                                      |                                                     |                           |                                               |                                    |                                        |
| Accelerated tax depreciation      | (5)                                  | –                                     | (5)                                  | –                                                   | (17)                      | (12)                                          | –                                  | (34)                                   |
| Provisions for loans and advances | (144)                                | 16                                    | (128)                                | (3)                                                 | (53)                      | (1)                                           | –                                  | (185)                                  |
| Tax losses carried forward        | (9)                                  | –                                     | (9)                                  | –                                                   | –                         | 2                                             | –                                  | (7)                                    |
| Available for sale securities     | –                                    | 9                                     | 9                                    | –                                                   | 8                         | –                                             | (49)                               | (32)                                   |
| Premises revaluation              | 12                                   | –                                     | 12                                   | –                                                   | –                         | –                                             | –                                  | 12                                     |
| Cash flow hedges                  | –                                    | (1)                                   | (1)                                  | –                                                   | –                         | –                                             | –                                  | (1)                                    |
| Unrelieved foreign tax            | (21)                                 | –                                     | (21)                                 | –                                                   | –                         | 21                                            | –                                  | –                                      |
| Retirement benefit obligations    | (46)                                 | –                                     | (46)                                 | (1)                                                 | (47)                      | (15)                                          | (51)                               | (160)                                  |
| Share options                     | (7)                                  | –                                     | (7)                                  | –                                                   | –                         | (8)                                           | (86)                               | (101)                                  |
| Other temporary differences       | (98)                                 | 76                                    | (22)                                 | 1                                                   | 12                        | 48                                            | (29)                               | 10                                     |
|                                   | (318)                                | 100                                   | (218)                                | (3)                                                 | (97)                      | 35                                            | (215)                              | (498)                                  |

|                                   | At<br>1 January<br>2004<br>\$million | Exchange<br>translation<br>differences<br>\$million | Charge/<br>(credit) to<br>profit<br>\$million | (Credit) to<br>equity<br>\$million | At 31<br>December<br>2004<br>\$million |
|-----------------------------------|--------------------------------------|-----------------------------------------------------|-----------------------------------------------|------------------------------------|----------------------------------------|
| Deferred taxation comprises:      |                                      |                                                     |                                               |                                    |                                        |
| Accelerated tax depreciation      | 16                                   | –                                                   | (21)                                          | –                                  | (5)                                    |
| Provisions for loans and advances | (143)                                | (1)                                                 | –                                             | –                                  | (144)                                  |
| Tax losses carried forward        | (25)                                 | –                                                   | 16                                            | –                                  | (9)                                    |
| Available for sale securities     | –                                    | –                                                   | –                                             | –                                  | –                                      |
| Premises revaluation              | 35                                   | –                                                   | (23)                                          | –                                  | 12                                     |
| Cash flow hedges                  | –                                    | –                                                   | –                                             | –                                  | –                                      |
| Unrelieved foreign tax            | –                                    | –                                                   | (21)                                          | –                                  | (21)                                   |
| Retirement benefit obligations    | –                                    | –                                                   | –                                             | (46)                               | (46)                                   |
| Share options                     | –                                    | –                                                   | –                                             | (7)                                | (7)                                    |
| Other temporary differences       | (148)                                | (1)                                                 | 65                                            | (14)                               | (98)                                   |
|                                   | (265)                                | (2)                                                 | 16                                            | (67)                               | (318)                                  |

## Notes to the Accounts continued

### 26. Deferred Tax continued

|                                                                                              | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|
| No account has been taken of the following potential deferred taxation assets/(liabilities): |                   |                   |
| Tax losses carried forward                                                                   | –                 | 4                 |
| Provisions for loans and advances                                                            | –                 | 20                |
| Unrelieved foreign tax                                                                       | 239               | 178               |
| Unremitted earnings from overseas subsidiaries                                               | (144)             | (64)              |
| Foreign exchange movements on investments in branches                                        | 33                | (20)              |
| Premises revaluation                                                                         | (16)              | (16)              |
| Other                                                                                        | 35                | 35                |

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings or branches that are foreign operations at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future.

### 27. Other Assets

|                                                                                    | 2005<br>\$million | 2004<br>\$million |
|------------------------------------------------------------------------------------|-------------------|-------------------|
| Hong Kong SAR Government certificates of indebtedness (note 33)                    | 2,492             | 2,532             |
| Mark-to-market adjustments arising on foreign exchange and interest rate contracts | –                 | 7,318             |
| Other                                                                              | 4,671             | 1,747             |
|                                                                                    | 7,163             | 11,597            |

The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties.

### 28. Deposits by Banks

|                                                                      | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------|-------------------|-------------------|
| Deposits by banks                                                    | 18,834            | 15,162            |
| Deposits by banks included within:                                   |                   |                   |
| Financial liabilities at fair value through profit or loss (note 30) | 1,439             | 652               |
|                                                                      | 20,273            | 15,814            |

### 29. Customer Accounts

|                                                                      | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------|-------------------|-------------------|
| Customer accounts                                                    | 119,931           | 85,093            |
| Customer accounts included within:                                   |                   |                   |
| Financial liabilities at fair value through profit or loss (note 30) | 1,008             | 365               |
|                                                                      | 120,939           | 85,458            |

Included in customer accounts were deposits of \$2,640 million (2004: \$nil) held as collateral for irrevocable commitments under import letters of credit.

Customer accounts include \$964 million (2004: \$1,001 million) of liabilities under sale and repurchase agreements.

### 30. Financial Liabilities at Fair Value through Profit or Loss

|                          | 2005                 |                         |                    | 2004                          |
|--------------------------|----------------------|-------------------------|--------------------|-------------------------------|
|                          | Trading<br>\$million | Designated<br>\$million | Total<br>\$million | Total<br>Trading<br>\$million |
| Deposits by banks        | 1,102                | 337                     | 1,439              | 652                           |
| Customer accounts        | 394                  | 614                     | 1,008              | 365                           |
| Debt securities in issue | 1,068                | 433                     | 1,501              | 622                           |
| Short positions          | 2,345                | –                       | 2,345              | 753                           |
|                          | 4,909                | 1,384                   | 6,293              | 2,392                         |

The Group designates certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest related derivatives have been acquired with the intention of significantly reducing interest rate risk; or
- are exposed foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Derivatives are recorded at fair value whereas non-trading financial liabilities (unless designated at fair value) are recorded at amortised cost. Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense

recognition (a criteria of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of derivatives to the corresponding liabilities either individually or on a portfolio basis.

The changes in fair value of both the underlying liabilities and derivatives are monitored in a similar manner to trading book portfolios.

Upon adoption of IAS 32 and 39, the Group designated these liabilities at fair value as at 1 January 2005. The carrying amount under UK GAAP was \$nil.

The fair value gain on liabilities designated at fair value through profit or loss was \$12 million for the year. Of this, \$1.7 million relates to changes in credit risk. Of total fair value, \$1.9 million relates to credit risk.

The difference between the carrying amount at fair value and the amount the Group is contractually obliged to pay at maturity to the holders of the obligations is \$34.1 million.

### 31. Debt Securities in Issue

|                                                                         | 2005                                                               |                                                   |                    | 2004                                                               |                                                   |                    |
|-------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------|--------------------|--------------------------------------------------------------------|---------------------------------------------------|--------------------|
|                                                                         | Certificates of<br>deposit of<br>\$100,000<br>or more<br>\$million | Other debt<br>securities<br>in issue<br>\$million | Total<br>\$million | Certificates of<br>deposit of<br>\$100,000<br>or more<br>\$million | Other debt<br>securities<br>in issue<br>\$million | Total<br>\$million |
| Debt securities in issue                                                | 14,179                                                             | 11,734                                            | 25,913             | 4,079                                                              | 6,926                                             | 11,005             |
| Debt securities in issue within:                                        |                                                                    |                                                   |                    |                                                                    |                                                   |                    |
| Financial liabilities at fair value<br>through profit or loss (note 30) | 201                                                                | 1,300                                             | 1,501              | –                                                                  | 622                                               | 622                |
|                                                                         | 14,380                                                             | 13,034                                            | 27,414             | 4,079                                                              | 7,548                                             | 11,627             |

## Notes to the Accounts continued

### 32. Structure of Deposits

The following tables set out the structure of Standard Chartered's deposits by principal geographic region where it operates at 31 December 2005 and 31 December 2004:

|                                                  | 2005                      |                        |                       |                    |                                       |                    |                                                   |                     |                                                          |                    |
|--------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|---------------------------------------------------|---------------------|----------------------------------------------------------|--------------------|
|                                                  | Asia Pacific              |                        |                       |                    |                                       | India<br>\$million | *Middle<br>East &<br>Other<br>S Asia<br>\$million | Africa<br>\$million | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |
|                                                  | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million |                    |                                                   |                     |                                                          |                    |
| Non interest bearing current and demand accounts | 2,998                     | 2,001                  | 1,120                 | 216                | 1,343                                 | 1,928              | 2,855                                             | 1,359               | 473                                                      | 14,293             |
| Interest bearing current and demand accounts     | 12,753                    | 2,063                  | 148                   | 13,554             | 3,612                                 | 3                  | 1,110                                             | 1,264               | 4,534                                                    | 39,041             |
| Savings deposits                                 | 6                         | 1,383                  | 459                   | 12                 | 2,478                                 | 1,286              | 1,369                                             | 368                 | –                                                        | 7,361              |
| Time deposits                                    | 17,893                    | 11,324                 | 4,046                 | 14,542             | 8,397                                 | 3,164              | 5,179                                             | 872                 | 10,675                                                   | 76,092             |
| Other deposits                                   | 20                        | 49                     | 1,120                 | 1,322              | 748                                   | 11                 | 432                                               | 97                  | 626                                                      | 4,425              |
| Total                                            | 33,670                    | 16,820                 | 6,893                 | 29,646             | 16,578                                | 6,392              | 10,945                                            | 3,960               | 16,308                                                   | 141,212            |
| Deposits by banks                                | 627                       | 3,641                  | 652                   | 4,742              | 3,517                                 | 676                | 1,893                                             | 98                  | 4,427                                                    | 20,273             |
| Customer accounts                                | 33,043                    | 13,179                 | 6,241                 | 24,904             | 13,061                                | 5,716              | 9,052                                             | 3,862               | 11,881                                                   | 120,939            |
|                                                  | 33,670                    | 16,820                 | 6,893                 | 29,646             | 16,578                                | 6,392              | 10,945                                            | 3,960               | 16,308                                                   | 141,212            |
| Debt securities in issue                         | 840                       | 1,111                  | 619                   | 19,815             | 741                                   | 655                | –                                                 | 85                  | 3,548                                                    | 27,414             |
| Total                                            | 34,510                    | 17,931                 | 7,512                 | 49,461             | 17,319                                | 7,047              | 10,945                                            | 4,045               | 19,856                                                   | 168,626            |

|                                                  | 2004                      |                        |                       |                    |                                       |                    |                                                   |                     |                                                          |                    |
|--------------------------------------------------|---------------------------|------------------------|-----------------------|--------------------|---------------------------------------|--------------------|---------------------------------------------------|---------------------|----------------------------------------------------------|--------------------|
|                                                  | Asia Pacific              |                        |                       |                    |                                       | India<br>\$million | *Middle<br>East &<br>Other<br>S Asia<br>\$million | Africa<br>\$million | Americas<br>UK &<br>Group<br>Head<br>Office<br>\$million | Total<br>\$million |
|                                                  | Hong<br>Kong<br>\$million | Singapore<br>\$million | Malaysia<br>\$million | Korea<br>\$million | Other<br>Asia<br>Pacific<br>\$million |                    |                                                   |                     |                                                          |                    |
| Non interest bearing current and demand accounts | 3,602                     | 2,040                  | 989                   | 1                  | 1,227                                 | 1,224              | 2,260                                             | 1,159               | 16                                                       | 12,518             |
| Interest bearing current and demand accounts     | 15,300                    | 2,329                  | 130                   | 943                | 2,056                                 | 2                  | 1,090                                             | 1,603               | 3,920                                                    | 27,373             |
| Savings deposits                                 | 24                        | 528                    | 437                   | 707                | 1,154                                 | 970                | 1,599                                             | 512                 | 9                                                        | 5,940              |
| Time deposits                                    | 13,155                    | 9,847                  | 3,423                 | 150                | 6,601                                 | 3,441              | 4,186                                             | 679                 | 10,410                                                   | 51,892             |
| Other deposits                                   | 2                         | 50                     | 569                   | –                  | 904                                   | 2                  | 402                                               | 69                  | 1,551                                                    | 3,549              |
| Total                                            | 32,083                    | 14,794                 | 5,548                 | 1,801              | 11,942                                | 5,639              | 9,537                                             | 4,022               | 15,906                                                   | 101,272            |
| Deposits by banks                                | 1,204                     | 3,150                  | 813                   | 688                | 2,674                                 | 1,109              | 1,362                                             | 110                 | 4,704                                                    | 15,814             |
| Customer accounts                                | 30,879                    | 11,644                 | 4,735                 | 1,113              | 9,268                                 | 4,530              | 8,175                                             | 3,912               | 11,202                                                   | 85,458             |
|                                                  | 32,083                    | 14,794                 | 5,548                 | 1,801              | 11,942                                | 5,639              | 9,537                                             | 4,022               | 15,906                                                   | 101,272            |
| Debt securities in issue                         | 1,508                     | 758                    | 401                   | 36                 | 1,027                                 | 469                | –                                                 | 1                   | 7,427                                                    | 11,627             |
| Total                                            | 33,591                    | 15,552                 | 5,949                 | 1,837              | 12,969                                | 6,108              | 9,537                                             | 4,023               | 23,333                                                   | 112,899            |

\* Middle East and Other S Asia includes UAE deposits of \$5,958 million (2004: \$4,740 million).

### 33. Other Liabilities

|                                                                                    | 2005<br>\$million | 2004<br>\$million |
|------------------------------------------------------------------------------------|-------------------|-------------------|
| Mark-to-market adjustments arising on foreign exchange and interest rate contracts | –                 | 7,077             |
| Notes in circulation                                                               | 2,492             | 2,532             |
| Cash settled share based payments                                                  | 26                | 19                |
| Other liabilities                                                                  | 5,928             | 5,161             |
|                                                                                    | 8,446             | 14,789            |

Hong Kong currency notes in circulation of \$2,492 million (31 December 2004: \$2,532 million) are secured by Hong Kong SAR Government certificates of indebtedness of the same amount included in other assets (note 27).

### 34. Provisions for Liabilities and Charges

|                                  | Provision for<br>credit<br>commitments<br>\$million | Other<br>provisions<br>\$million | Total<br>\$million |
|----------------------------------|-----------------------------------------------------|----------------------------------|--------------------|
| At 1 January 2005                | 53                                                  | 8                                | 61                 |
| Exchange translation differences | 2                                                   | (1)                              | 1                  |
| Acquired                         | 31                                                  | –                                | 31                 |
| (Release)/charge against profit  | (13)                                                | 12                               | (1)                |
| Provisions utilised              | (8)                                                 | (2)                              | (10)               |
| Other                            | (22)                                                | (5)                              | (27)               |
| At 31 December 2005              | 43                                                  | 12                               | 55                 |

Provisions principally comprise legal claims made against the Group. The timing of concluding these legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

### 35. Retirement Benefit Obligations

Retirement benefit obligations comprise:

|                              | 2005<br>\$million | 2004<br>\$million |
|------------------------------|-------------------|-------------------|
| Defined benefit schemes      | 465               | 160               |
| Defined contribution schemes | 11                | 9                 |
| Net book amount              | 476               | 169               |

|                                               | 2005<br>\$million | 2004<br>\$million |
|-----------------------------------------------|-------------------|-------------------|
| At 1 January                                  | 169               | 128               |
| Exchange translation differences              | (7)               | 9                 |
| Charge against profit (net of finance income) | 126               | 82                |
| Change in net liability                       | 188               | (61)              |
| Other                                         | –                 | 11                |
| At 31 December                                | 476               | 169               |

Retirement benefit charge comprises:

|                              | 2005<br>\$million | 2004<br>\$million |
|------------------------------|-------------------|-------------------|
| Defined benefit schemes      | 71                | 45                |
| Defined contribution schemes | 60                | 45                |
| Other                        | –                 | 2                 |
|                              | 131               | 92                |

## Notes to the Accounts continued

### 35. Retirement Benefit Obligations continued

#### UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was

performed as at 31 December 2002 by T. Cunningham, Fellow of the Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. The assumptions having the most significant effect on the outcome of this valuation were:

|                                                                   |                        |
|-------------------------------------------------------------------|------------------------|
| Return from investments held for pensioners                       | 5.0 per cent per annum |
| Return from investments held for non-pensioners before retirement | 6.4 per cent per annum |
| Return from investments held for non-pensioners after retirement  | 5.2 per cent per annum |
| General increase in salaries                                      | 4.8 per cent per annum |
| Increase in pensions:                                             |                        |
| In deferment (where applicable)                                   | 2.3 per cent per annum |
| In payment* (pre April 1997 service)                              | 2.3 per cent per annum |
| In payment (post April 1997 service)                              | 2.3 per cent per annum |

\* Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund (\$1,197 million) was sufficient to cover 97 per cent of the benefits that had accrued to members (84 per cent including the allowance for discretionary benefit increases). The Group paid an additional contribution of \$114 million into the Fund on 30 December 2003 to improve the financial position of the Fund. No further additional contributions were paid during 2004 and none are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2005 totalled \$11 million (2004: \$14 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) employees and seconded staff and 38.4 per cent of pensionable salary for international staff. Due to the closure of the Fund to new entrants, the current service cost will increase as a percentage of pensionable pay as the members approach retirement.

Pension costs for the purpose of these accounts were assessed using the same method, but the assumptions were different in several respects.

With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme.

#### Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Hong Kong, India, Jersey, Kenya, Korea and the United States.

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2005. (The effective date of the full valuations ranges between 31 December 2002 and 31 December 2005.)

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2005 were:

|                                    | Funded Defined Benefit Schemes |           |                               |            |
|------------------------------------|--------------------------------|-----------|-------------------------------|------------|
|                                    | UK Fund <sup>2</sup>           |           | Overseas Schemes <sup>1</sup> |            |
|                                    | 2005<br>%                      | 2004<br>% | 2005<br>%                     | 2004<br>%  |
| Price inflation                    | 2.80                           | 2.80      | 2.00-5.00                     | 2.00-4.50  |
| Salary increases                   | 5.30                           | 5.30      | 4.00-5.00                     | 4.00-5.00  |
| Pension increases                  | 2.70                           | 2.40      | 0.00-2.78                     | 0.00-2.40  |
| Discount rate                      | 4.90                           | 5.40      | 4.25-12.00                    | 4.00-12.00 |
| Post-retirement medical trend rate | N/A                            | N/A       | N/A                           | N/A        |

Pension increases for the UK Fund range from 2.7 per cent to 2.8 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 2.8 per cent.

- The range of assumptions shown is for the main funded defined benefit overseas schemes in Hong Kong, India, Jersey, Kenya and the United States. These comprise 89 per cent of the total liabilities of funded overseas schemes.
- The assumption for life expectancy for the UK fund assumes that a male member currently aged 60 will live for 26 years (2004: 24½ years) and a male member currently aged 45 will live for 27 years (2004: 25½ years) after his 60<sup>th</sup> birthday.

## 35. Retirement Benefit Obligations continued

|                              | Unfunded Schemes                                               |                                                               |            |            |
|------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|------------|------------|
|                              | Post-retirement Medical <sup>1</sup>                           |                                                               | Other      |            |
|                              | 2005<br>%                                                      | 2004<br>%                                                     | 2005<br>%  | 2004<br>%  |
| Price inflation              | 2.70                                                           | 2.70                                                          | 2.70-6.00  | 2.00-6.00  |
| Salary increases             | 4.00                                                           | 4.00                                                          | 4.00-8.00  | 4.00-8.00  |
| Pension increases            | N/A                                                            | N/A                                                           | 0.00-2.70  | 0.00-2.40  |
| Discount rate                | 5.75                                                           | 6.20                                                          | 3.00-14.00 | 3.00-10.00 |
| Post-retirement medical rate | 10% in 2005<br>reducing by<br>1% per<br>annum to 5%<br>in 2010 | 9% in 2004<br>reducing by<br>1% per<br>annum to 5%<br>in 2008 | N/A        | N/A        |

1 The Post-retirement Medical plan is in the United States. There are no other Post-retirement Medical schemes.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2005 were:

|                                           | Funded Defined Benefit Schemes    |                    |                                   |                    | Unfunded Schemes                  |                    |                                   |                    |
|-------------------------------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|
|                                           | UK Fund                           |                    | Overseas Schemes                  |                    | Post-retirement Medical           |                    | Other                             |                    |
|                                           | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million |
| At 31 December 2005                       |                                   |                    |                                   |                    |                                   |                    |                                   |                    |
| Equities                                  | 7.75                              | 619                | 7.75-12.00                        | 162                | N/A                               | N/A                | N/A                               | N/A                |
| Bonds                                     | 4.25                              | 909                | 4.25-12.00                        | 133                | N/A                               | N/A                | N/A                               | N/A                |
| Property                                  | N/A                               | –                  | 7.00-12.00                        | 2                  | N/A                               | N/A                | N/A                               | N/A                |
| Others                                    | 4.90                              | 22                 | 1.75- 4.90                        | 83                 | N/A                               | N/A                | N/A                               | N/A                |
| Total market value of assets              |                                   | 1,550              |                                   | 380                |                                   | N/A                |                                   | N/A                |
| Present value of the schemes' liabilities |                                   | (1,785)            |                                   | (403)              |                                   | (11)               |                                   | (196)              |
| Net pension liability*                    |                                   | (235)              |                                   | (23)               |                                   | (11)               |                                   | (196)              |

|                                           | Funded Defined Benefit Schemes    |                    |                                   |                    | Unfunded Schemes                  |                    |                                   |                    |
|-------------------------------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|
|                                           | UK Fund                           |                    | Overseas Schemes                  |                    | Post-retirement Medical           |                    | Other                             |                    |
|                                           | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million | Expected<br>return on<br>assets % | Value<br>\$million |
| At 31 December 2004                       |                                   |                    |                                   |                    |                                   |                    |                                   |                    |
| Equities                                  | 8.40                              | 649                | 7.00-12.00                        | 161                | N/A                               | N/A                | N/A                               | N/A                |
| Bonds                                     | 4.76-5.40                         | 916                | 4.76-12.00                        | 126                | N/A                               | N/A                | N/A                               | N/A                |
| Property                                  | 6.50                              | –                  | 6.50-12.00                        | 6                  | N/A                               | N/A                | N/A                               | N/A                |
| Others                                    | 4.60                              | 31                 | 1.75-4.90                         | 24                 | N/A                               | N/A                | N/A                               | N/A                |
| Total market value of assets              |                                   | 1,596              |                                   | 317                |                                   | N/A                |                                   | N/A                |
| Present value of the schemes' liabilities |                                   | (1,679)            |                                   | (338)              |                                   | (11)               |                                   | (45)               |
| Net pension liability*                    |                                   | (83)               |                                   | (21)               |                                   | (11)               |                                   | (45)               |

The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Kenya and the United States.

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

\* No scheme contains a surplus that is non-recoverable.

## Notes to the Accounts continued

### 35. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

| Year ending 31 December 2005                                                           | Funded Defined Benefit Schemes |                            | Unfunded Schemes                  |                 | Total \$million |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------------------|-----------------|-----------------|
|                                                                                        | UK Fund \$million              | Overseas Schemes \$million | Post-retirement Medical \$million | Other \$million |                 |
| Current service cost                                                                   | 16                             | 41                         | 1                                 | 14              | 72              |
| Past service cost                                                                      | –                              | –                          | –                                 | –               | –               |
| Gain on settlements and curtailments                                                   | (1)                            | –                          | –                                 | –               | (1)             |
| Expected return on pension scheme assets                                               | (93)                           | (28)                       | –                                 | –               | (121)           |
| Interest on pension scheme liabilities                                                 | 85                             | 24                         | –                                 | 7               | 116             |
| Total charge to profit before deduction of tax                                         | 7                              | 37                         | 1                                 | 21              | 66              |
| (Gain) on assets in excess of expected return*                                         | (91)                           | (20)                       | –                                 | –               | (111)           |
| Loss on liabilities                                                                    | 256                            | 5                          | –                                 | –               | 261             |
| Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax | 165                            | (15)                       | –                                 | –               | 150             |
| Deferred taxation                                                                      | (50)                           | 5                          | –                                 | –               | (45)            |
| Total loss/(gain) after tax                                                            | 115                            | (10)                       | –                                 | –               | 105             |

\* The actual return on the UK fund assets was \$184 million and on overseas scheme assets was \$48 million.

| Year ending 31 December 2004                                                           | Funded Defined Benefit Schemes |                            | Unfunded Schemes                  |                 | Total \$million |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------------------|-----------------|-----------------|
|                                                                                        | UK Fund \$million              | Overseas Schemes \$million | Post-retirement Medical \$million | Other \$million |                 |
| Current service cost                                                                   | 15                             | 24                         | –                                 | 8               | 47              |
| Past service cost                                                                      | 1                              | 1                          | –                                 | 1               | 3               |
| Gain on settlements and curtailments                                                   | –                              | (5)                        | –                                 | –               | (5)             |
| Expected return on pension scheme assets                                               | (91)                           | (29)                       | –                                 | –               | (120)           |
| Interest on pension scheme liabilities                                                 | 84                             | 23                         | 1                                 | 2               | 110             |
| Total charge to profit before deduction of tax                                         | 9                              | 14                         | 1                                 | 11              | 35              |
| (Gain) on assets in excess of expected return*                                         | (20)                           | (2)                        | –                                 | –               | (22)            |
| Experience loss/(gain) on liabilities                                                  | –                              | (1)                        | (1)                               | –               | (2)             |
| Loss on liabilities                                                                    | 23                             | 7                          | –                                 | (1)             | 29              |
| Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax | 3                              | 4                          | (1)                               | (1)             | 5               |
| Deferred taxation                                                                      | (1)                            | –                          | –                                 | –               | (1)             |
| Total loss/(gain) after tax                                                            | 2                              | 4                          | (1)                               | (1)             | 4               |

\* The actual return on the UK fund assets was \$111 million and on overseas scheme assets was \$31 million.

The total cumulative amount recognised in the Statement of Recognised Income and Expenses before tax to date is \$155 million.

### 35. Retirement Benefit Obligations continued

Movement in the pension schemes and post-retirement medical deficit during the year comprise:

|                               | Funded Defined Benefit Schemes |                                  | Unfunded Schemes                            |                    | Total<br>\$million |
|-------------------------------|--------------------------------|----------------------------------|---------------------------------------------|--------------------|--------------------|
|                               | UK Fund<br>\$million           | Overseas<br>Schemes<br>\$million | Post-<br>retirement<br>Medical<br>\$million | Other<br>\$million |                    |
| Year ending 31 December 2005  |                                |                                  |                                             |                    |                    |
| Deficit at 1 January 2005     | (83)                           | (21)                             | (11)                                        | (45)               | (160)              |
| Contributions                 | 11                             | 49                               | 1                                           | 11                 | 72                 |
| Current service cost          | (16)                           | (41)                             | (1)                                         | (14)               | (72)               |
| Past service cost             | –                              | –                                | –                                           | –                  | –                  |
| Settlement/curtailment costs  | 1                              | –                                | –                                           | –                  | 1                  |
| Other finance income/(charge) | 8                              | 4                                | –                                           | (7)                | 5                  |
| Actuarial (loss)/gain         | (165)                          | 15                               | –                                           | –                  | (150)              |
| Acquisitions                  | –                              | (28)                             | –                                           | (141)              | (169)              |
| Exchange rate adjustment      | 9                              | (1)                              | –                                           | –                  | 8                  |
| Deficit at 31 December 2005   | (235)                          | (23)                             | (11)                                        | (196)              | (465)              |

|                               | Funded Defined Benefit Schemes |                                  | Unfunded Schemes                            |                    | Total<br>\$million |
|-------------------------------|--------------------------------|----------------------------------|---------------------------------------------|--------------------|--------------------|
|                               | UK Fund<br>\$million           | Overseas<br>Schemes<br>\$million | Post-<br>retirement<br>Medical<br>\$million | Other<br>\$million |                    |
| Year ending 31 December 2004  |                                |                                  |                                             |                    |                    |
| Deficit at 1 January 2004     | (79)                           | (47)                             | (12)                                        | (35)               | (173)              |
| Contributions                 | 14                             | 49                               | 1                                           | 1                  | 65                 |
| Current service cost          | (15)                           | (24)                             | –                                           | (8)                | (47)               |
| Past service cost             | (1)                            | (1)                              | –                                           | (1)                | (3)                |
| Settlement/curtailment costs  | –                              | 5                                | –                                           | –                  | 5                  |
| Other finance income/(charge) | 7                              | 6                                | (1)                                         | (2)                | 10                 |
| Actuarial gain/(loss)         | (3)                            | (4)                              | 1                                           | 1                  | (5)                |
| Acquisitions                  | –                              | (4)                              | –                                           | –                  | (4)                |
| Exchange rate adjustment      | (6)                            | (1)                              | –                                           | (1)                | (8)                |
| Deficit at 31 December 2004   | (83)                           | (21)                             | (11)                                        | (45)               | (160)              |

Movement in the pension schemes and post-retirement medical gross assets and obligations during the year comprise:

|                                  | Assets<br>\$million | Obligations<br>\$million | Total<br>\$million |
|----------------------------------|---------------------|--------------------------|--------------------|
| Year ending 31 December 2005     |                     |                          |                    |
| Deficit at 1 January 2005        | 1,913               | (2,073)                  | (160)              |
| Contributions                    | 72                  | –                        | 72                 |
| Current service cost             | –                   | (72)                     | (72)               |
| Past service cost                | –                   | –                        | –                  |
| Settlement/curtailment costs     | –                   | 1                        | 1                  |
| Interest cost                    | –                   | (116)                    | (116)              |
| Expected return on scheme assets | 121                 | –                        | 121                |
| Benefits paid out                | (98)                | 98                       | –                  |
| Actuarial gain/(loss)            | 111                 | (261)                    | (150)              |
| Acquisitions                     | 2                   | (171)                    | (169)              |
| Exchange rate adjustment         | (191)               | 199                      | 8                  |
| Deficit at 31 December 2005      | 1,930               | (2,395)                  | (465)              |

## Notes to the Accounts continued

### 36. Subordinated Liabilities and Other Borrowed Funds

|                                                                                        | 2005<br>\$million | 2004<br>\$million |
|----------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Dated subordinated loan capital – issued by subsidiary undertakings</b>             |                   |                   |
| £30 million Floating Rate Notes 2009                                                   | 51                | 57                |
| £300 million 6.75 per cent Notes 2009                                                  | 476               | 517               |
| €600 million 5.375 per cent Notes 2009                                                 | 655               | 730               |
| BWP 75 million Floating Rate Notes 2012                                                | 14                | 18                |
| \$325 million Floating Rate Notes 2005/2010                                            | –                 | 313               |
| €575 million 4.5 per cent Notes 2010                                                   | –                 | 771               |
| \$700 million 8.0 per cent subordinated Notes 2031                                     | 753               | 620               |
| €500 million 8.16 per cent non-cumulative Trust Preferred Securities 2010              | 630               | 674               |
| £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities 2016 | 628               | 572               |
| £200 million 7.75 per cent Step-Up Notes 2022                                          | 426               | 373               |
| \$350 million 4.375 per cent Notes 2014 (Floating rate from 2009)                      | 340               | 350               |
| HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)                      | 62                | 64                |
| HKD 670 million Floating Rate Notes 2014                                               | 85                | 85                |
| €750 million 3.625 per cent (Floating rate from 2012) Subordinated rates 2017          | 880               | –                 |
| \$500 million Floating Rate Notes 2015                                                 | 498               | –                 |
| \$500 million Floating Rate Notes 2016                                                 | 498               | –                 |
| \$375 million Subordinated debt 2013                                                   | 383               | –                 |
| \$200 million Subordinated debt 2013                                                   | 206               | –                 |
| KRW 205 billion Subordinated debt 2009                                                 | 200               | –                 |
| KRW 160 billion Subordinated debt 2008                                                 | 157               | –                 |
| KRW 136 billion Subordinated debt 2007                                                 | 133               | –                 |
| KRW 104 billion Subordinated debt 2007                                                 | 102               | –                 |
| KRW 40 billion Subordinated debt 2006                                                  | 40                | –                 |
| KRW 30 billion Subordinated debt 2011                                                  | 29                | –                 |
| KRW 27 billion Subordinated debt 2008                                                  | 27                | –                 |
| BWP 50 million Fixed and Floating Rate Subordinated Notes 2015                         | 9                 | –                 |
| TZS 8 billion Subordinated notes 2015                                                  | 7                 | –                 |
| KRW 3 billion Subordinated debt 2011                                                   | 3                 | –                 |
|                                                                                        | 7,292             | 5,144             |
| <b>Undated subordinated loan capital – issued by subsidiary undertakings</b>           |                   |                   |
| £400 million                                                                           | 683               | –                 |
| £275 million                                                                           | 473               | –                 |
|                                                                                        | 1,156             | –                 |
| <b>Undated subordinated loan capital – issued by Company</b>                           |                   |                   |
| Primary Capital Floating Rate Notes:                                                   |                   |                   |
| \$400 million                                                                          | 400               | 400               |
| \$300 million (Series 2)                                                               | 300               | 300               |
| \$400 million (Series 3)                                                               | 400               | 400               |
| \$200 million (Series 4)                                                               | 200               | 200               |
| £150 million                                                                           | 258               | 288               |
|                                                                                        | 1,558             | 1,588             |
| <b>Other undated borrowings – issued by Undertakings</b>                               | –                 | 36                |
| <b>Other undated borrowings – issued by Company</b>                                    | *343              | –                 |
| <b>Total for Group</b>                                                                 | <b>10,349</b>     | <b>6,768</b>      |
| <b>Total for Company</b>                                                               | <b>1,893</b>      | <b>1,588</b>      |

\* In the balance sheet of the Company the amount recognised is \$335 million with the difference being the effect of hedge accounting achieved on a Group basis.

### 36. Subordinated Liabilities and Other Borrowed Funds continued

All dated and undated loan capital described above is 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 dated and undated debt instruments in certain circumstances set out in the contractual agreements.

Of total dated loan capital and other borrowings \$6,151 million is at fixed interest rates (31 December 2004: \$4,671 million).

Upon adoption of IAS 32 on 1 January 2005, the Group's £100 million 7% and £100 million 8¼ per cent irredeemable £1 preference shares were reclassified from equity to subordinated liabilities and other borrowed funds.

At the same time £200 million 7.75 per cent Step-Up Notes 2022 and £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities were reclassified as minority interests. On 30 December 2005, the terms and conditions of the notes were modified with the approval of the Trustees. The effect of the modification was to reclassify these instruments from minority interests to subordinated liabilities and other borrowed funds at their market value on 30 December 2005.

On 3 February 2005, the Group issued €750 million subordinated Lower Tier II notes ("Euro Notes") at an issue price of 99.43 per cent and \$500 million of subordinated Lower Tier II notes ("Dollar notes") at an issue price of 99.86 per cent.

The Euro notes will mature on 3 February 2017 and are callable on 3 February 2012 and at each subsequent interest date. Interest is payable annually on the Euro notes at a fixed rate of 3.625 per cent until 3 February 2012 when a variable rate of interest of 3 month Euribor plus 87 bps will be paid.

The Dollar notes will mature on 3 February 2015 and are callable on 4 February 2010 and at each subsequent interest date. Interest is payable quarterly on the Dollar notes at a variable rate of \$Libor plus 30 bps until 4 February 2010 when the rates will increase to \$Libor plus 80 bps.

Fair value of \$1,280 million of subordinated liabilities was added with the acquisition of SCFB.

On 18 April 2005, the Group called back the €575 million convertible debt at par. The convertible debt had embedded derivative features that had been separated from the underlying host contract and fair valued on 1 January 2005 on adoption of IAS 32 and 39.

SCB Tanzania issued TZS 8 billion subordinated floating rate bonds in June 2005 which have a final redemption in August 2015 though early redemption in whole or in part by the issuer is available five years and one day from the issue date.

On 17 June 2005, the Group issued £400 million Undated Callable Step Up Subordinated Upper Tier 2 notes at an issue price of 98.642 per cent. Interest is payable annually at a fixed rate of 5.375 per cent until 14 July 2020 when variable rate interest of 3 month £Libor plus 189 bps will be paid. These notes have been consolidated and form a single series with the £400 million notes issued on 17 June 2005.

On 12 October 2005, the Group issued £275 million Undated Callable Step Up Subordinated Upper Tier 2 notes at an issue price of 100.43 per cent. Interest is payable annually on the notes at a fixed rate of 5.375 per cent until 14 July 2020 when variable rate interest of 3 month £Libor plus 189 bps will be paid. These notes have been consolidated and form a single series with the £400 million notes issued on 17 June 2005.

On 21 October 2005 at par, the Group called \$325 million Floating Rate Notes 2005/2010 on the first call date.

SCB Botswana issued BWP 50 million subordinated floating rate notes in December 2005 which have a final redemption in December 2015, although early redemption in whole or in part by the issuer is available but only after five years and one day from the issue date.

On 9 December 2005, the Group issued \$500m Floating Rate Subordinated Lower Tier 2 notes at an issue price of 99.854 per cent due 2016 with the first call date in June 2011. Interest is payable quarterly on the notes at a floating rate of three months \$Libor plus 30 bps until 8th June 2011 when floating interest rate of three month \$Libor plus 80 bps will be paid.

## Notes to the Accounts continued

### 37. Share Capital

The authorised share capital of the Company at 31 December 2005 was \$4,857 million (2004: \$5,137 million) made up of 2,632 million ordinary shares of \$0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of \$5 each and one million non-cumulative preference share of €1,000 each.

As at 31 December 2005, 328,388 \$5 preference shares were in issue. The irredeemable preference shares of £1 each were reclassified to other borrowed funds from 1 January 2005 upon adoption of IAS 32.

#### Group and Company

|                                          | Number of<br>ordinary shares<br>(millions) | Ordinary share<br>capital<br>\$m | Preference<br>share capital<br>\$m | Share premium<br>account<br>\$m | Total<br>\$m |
|------------------------------------------|--------------------------------------------|----------------------------------|------------------------------------|---------------------------------|--------------|
| At 1 January 2004                        | 1,175                                      | 588                              | 351                                | 2,813                           | 3,752        |
| Exchange translation differences         | –                                          | –                                | 26                                 | –                               | 26           |
| Shares issued, net of expenses           | 4                                          | 2                                | –                                  | 15                              | 17           |
| Capitalised on exercise of share options | –                                          | –                                | –                                  | 7                               | 7            |
| At 31 December 2004                      | 1,179                                      | 590                              | 377                                | 2,835                           | 3,802        |
| Adoption of IAS 32 and 39                | –                                          | –                                | (375)                              | –                               | (375)        |
| At 1 January 2005                        | 1,179                                      | 590                              | 2                                  | 2,835                           | 3,427        |
| Capitalised on scrip dividend            | 4                                          | 2                                | –                                  | (2)                             | –            |
| Shares issued, net of expenses           | 133                                        | 66                               | –                                  | 2,145                           | 2,211        |
| At 31 December 2005                      | 1,316                                      | 658                              | 2                                  | 4,978                           | 5,638        |

On 14 January 2005, the Company issued 117,902,943 new ordinary shares at a price of 920 pence per share representing approximately 9.99 per cent of the Company's existing issued ordinary share capital. The net proceeds of the placing were approximately GBP 1,071 million (\$2.0 billion). The purpose of the share issue was to aid the funding of the purchase of the entire share capital of SCFB for approximately KRW 3.4 trillion (\$3.3 billion) in cash.

On 16 February 2005, the Company repurchased 3,000 8.9 per cent non-cumulative preference shares. The preference shares were repurchased at a premium of \$3 million and were cancelled. The remaining 328,388 preference shares in issue have a nominal value of \$2 million and are redeemable at the Company's option at a premium of \$326 million.

On 23 May 2005, the Company issued 11,700,000 new ordinary shares at a price of 985.6 pence per share (GBP 115 million, \$211 million) to the Employee Benefit Trust towards satisfaction of the vested shares under the Company's discretionary share schemes. A further 3,525,788 shares were issued for the purpose of the employee share schemes during 2005.

On 13 May 2005, 2,522,654 ordinary shares were issued instead of the 2004 final cash dividend. On 14 October 2005, 1,735,708 ordinary shares were issued instead of the 2005 interim cash dividend.

Post balance sheet date, on 12 January 2006, the Company issued 3,401,290 new ordinary shares at an average price of 1301 pence per share representing approximately 0.26 per cent of the Company's existing issued ordinary share capital. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited.

The holding of Standard Chartered PLC shares by the Group's share based award schemes is set out in note 40.

Transaction costs deducted from share issues total \$25 million (2004: \$nil).

### 38. Reserves and Retained Earnings

#### Group

|                                           | Capital<br>Reserve<br>\$million | Capital<br>Redemption<br>Reserve<br>\$million | Available-for-<br>sale reserve<br>\$million | Cash flow<br>hedge<br>reserve<br>\$million | Premises<br>revaluation<br>reserve<br>\$million | Translation<br>reserve<br>\$million | Retained<br>earnings<br>\$million | Total<br>\$million |
|-------------------------------------------|---------------------------------|-----------------------------------------------|---------------------------------------------|--------------------------------------------|-------------------------------------------------|-------------------------------------|-----------------------------------|--------------------|
| At 1 January 2004                         | 5                               | 11                                            | –                                           | –                                          | 57                                              | –                                   | 4,122                             | 4,195              |
| Recognised income and expenses            | –                               | –                                             | –                                           | –                                          | 19                                              | 96                                  | 1,578                             | 1,693              |
| Dividends                                 | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | (630)                             | (630)              |
| Net own shares adjustment                 | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | 52                                | 52                 |
| Capitalised on exercise of share options  | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | (7)                               | (7)                |
| At 31 December 2004                       | 5                               | 11                                            | –                                           | –                                          | 76                                              | 96                                  | 5,115                             | 5,303              |
| Adoption of IAS 32 and 39                 | –                               | –                                             | 73                                          | 42                                         | –                                               | –                                   | 36                                | 151                |
| Recognised income and expenses            | –                               | –                                             | (50)                                        | (62)                                       | –                                               | (90)                                | 1,865                             | 1,663              |
|                                           | –                               | –                                             | 23                                          | (20)                                       | –                                               | (90)                                | 1,901                             | 1,814              |
| Net own shares adjustment                 | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | (73)                              | (73)               |
| Share option expense and related taxation | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | 123                               | 123                |
| Dividends net scrip                       | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | (712)                             | (712)              |
| Debt recognition premium                  | –                               | –                                             | –                                           | –                                          | –                                               | –                                   | (211)                             | (211)              |
| At 31 December 2005                       | 5                               | 11                                            | 23                                          | (20)                                       | 76                                              | 6                                   | 6,143                             | 6,244              |

The cumulative amounts of premiums on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2004: \$27 million).

Capital reserves represent the exchange difference on redenomination of share capital and share premium from sterling to USD in 2001.

Capital redemption reserve represents the repurchase of preference shares.

Available-for-sale reserve is the fair value movement of financial assets classified as available-for-sale. Gains and losses are deferred to this reserve until such time the underlying asset is sold or matures.

Cash flow hedge reserve is the fair value movement of derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred to this reserve until such time the underlying hedged item affects profit and loss.

Premises revaluation represents revaluations made prior to the adoption of IFRS by the Group on 1 January 2004.

Translation reserve represents the foreign exchange gains and losses on translation of the net investment of its foreign operations. Gains and losses are deferred to this reserve until such time the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of its foreign operations.

Retained earnings are the carried forward recognised income and expenses of the Group plus current period recognised income and expenses less dividend distribution, treasury shares and share option expenses.

Own shares held total 14,040,907 at 31 December 2005 (2004: 12,306,768).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

## Notes to the Accounts continued

### 38. Reserves and Retained Earnings continued

#### Company

|                                           | Capital<br>Reserve<br>\$million | Capital<br>Redemption<br>Reserve<br>\$million | Retained<br>earnings<br>\$million | Total<br>\$million |
|-------------------------------------------|---------------------------------|-----------------------------------------------|-----------------------------------|--------------------|
| At 1 January 2004                         | 5                               | 11                                            | 616                               | 632                |
| Recognised income and expenses            | –                               | –                                             | 663                               | 663                |
| Dividends                                 | –                               | –                                             | (630)                             | (630)              |
| Net own shares adjustment                 | –                               | –                                             | 52                                | 52                 |
| Capitalised on exercise of share options  | –                               | –                                             | (7)                               | (7)                |
| At 31 December 2004                       | 5                               | 11                                            | 694                               | 710                |
| Adoption of IAS 32 and 39                 | –                               | –                                             | –                                 | –                  |
| Recognised income and expenses            | –                               | –                                             | 798                               | 798                |
|                                           | –                               | –                                             | 798                               | 798                |
| Net own shares adjustment                 | –                               | –                                             | (73)                              | (73)               |
| Share option expense and related taxation | –                               | –                                             | 52                                | 52                 |
| Dividends net scrip                       | –                               | –                                             | (712)                             | (712)              |
| At 31 December 2005                       | 5                               | 11                                            | 759                               | 775                |

### 39. Minority Interests

|                                                  | £200m<br>2022<br>Step-Up<br>Notes<br>\$million | £300m<br>8.103%<br>Step-Up<br>Callable<br>Perpetual<br>Trust<br>\$million | \$300m<br>7.267%<br>Hybrid<br>Tier-1<br>Securities<br>\$million | Other<br>minority<br>interests<br>\$million | Total<br>\$million |
|--------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------|--------------------|
| At 31 December 2004 previously published         | –                                              | –                                                                         | –                                                               | 964                                         | 964                |
| Adoption of IAS 32 and 39                        | 396                                            | 598                                                                       | –                                                               | (4)                                         | 990                |
| At 1 January 2005                                | 396                                            | 598                                                                       | –                                                               | 960                                         | 1,954              |
| Arising on acquisition                           | –                                              | –                                                                         | 333                                                             | –                                           | 333                |
| Appropriation in respect of exchange translation | (43)                                           | (64)                                                                      | –                                                               | (1)                                         | (108)              |
| Other profits attributable to minority interests | 26                                             | 41                                                                        | 14                                                              | 52                                          | 133                |
| Recognised income and expenses                   | (17)                                           | (23)                                                                      | 14                                                              | 51                                          | 25                 |
| Distributions                                    | (26)                                           | (42)                                                                      | (11)                                                            | (39)                                        | (118)              |
| Reductions                                       | (353)                                          | (533)                                                                     | –                                                               | (857)                                       | (1,743)            |
| At 31 December 2005                              | –                                              | –                                                                         | 336                                                             | 115                                         | 451                |

On 30 December 2005, the terms and conditions of the £200 million 2022 Step-Up notes and £300 million Step-Up Callable Perpetual Trust notes were modified with the approval of the Trustees. The effect of the modification is that the notes have been reclassified from minority interests to subordinated liabilities and other borrowed funds at their market value on 30 December 2005.

Following additional investments in the Global Liquidity Fund by third parties, the Group's interest is no longer treated as a subsidiary and the minority interest has been reduced accordingly.

In May 2005, the Group purchased a further 24.97 per cent of Standard Chartered Nakornthon Bank Public Company Thailand, reducing the other minority interest.

#### 40. Share Based Payments

The Group operates a number of share based payment schemes for its directors and employees.

The total charge for the year relating to employee share based payment plans was \$78 million (2004: \$55 million) of which \$64 million (2004: \$45 million) relates to equity settled awards and \$14 million (2004: \$10 million) relates to cash settled awards. After deferred tax, the total charge was \$68 million (2004: \$48 million).

##### 1997 Restricted Share Scheme

The Group operates a discretionary Restricted Share Scheme for high performing and high potential staff at any level of the organisation whom the Group wish to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the Restricted Share Scheme is not applicable to executive directors, as it has no performance conditions attached to it. 50 per cent of the award vests two years after the date of grant and the balance after three years. The value of shares awarded in any year to any individual may not exceed two times their base salary.

##### 1997 Supplemental Share Option Scheme (closed)

No awards have been made under this scheme since February 2000 and it is anticipated that no future grants will be made under it except in exceptional circumstances. To be eligible for a grant under this scheme, participants had to retain a personal holding of at least 10,000 shares, purchased at their own expense. Options can only be exercised up to the fifth anniversary of the grant date if, during the performance period:

- The share price over 20 consecutive days exceeds the share price at the date of grant by at least 50 per cent plus RPI; and
- EPS increases by at least 25 per cent plus RPI.

Both conditions must be satisfied within five years of the date of grant. In the event of a change of control, the Committee may deem the EPS target to have been met.

##### 1994 Executive Share Option Scheme (closed)

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

##### 2000 Executive Share Option Scheme

The 2000 scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. An EPS performance criterion needs to be met before options can be exercised.

Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can normally only be exercised if a performance condition is satisfied.

##### 2001 Performance Share Plan

The Performance Share Plan is designed to be an intrinsic part of total remuneration for the Group's executive directors and for a small number of the group's most senior executives. It is an internationally competitive long-term incentive plan that focuses executives on meeting and exceeding the long-term performance targets of the Group. The performance criteria which need to be met are set out in the Director's Remuneration Report on pages 49 to 61. Awards of nil price options to acquire shares are granted to the director and will normally be exercised between three and ten years after the date of grant if the individual is still employed by the Group. There is provision for earlier exercise in certain limited circumstances.

##### All Employee Sharesave Schemes

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

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

## Notes to the Accounts continued

### 40. Share Based Payments continued

#### 2000 Executive Share Option Scheme

##### Valuation

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

| Grant Date                     | 2005      |           | 2004         |           |
|--------------------------------|-----------|-----------|--------------|-----------|
|                                | 14 June   | 9 March   | 14 September | 4 March   |
| Share price at grant date      | £10.395   | £9.71     | £9.58        | £9.355    |
| Exercise price                 | £10.395   | £9.71     | £9.58        | £9.355    |
| Shares granted                 | 153,839   | 752,938   | 230,476      | 5,440,084 |
| Vesting period (years)         | 3         | 3         | 3            | 3         |
| Expected volatility (%)        | 30.9/31.6 | 30.9/32.3 | 30.9/35.6    | 30.9/35.8 |
| Expected option life (years)   | 10        | 10        | 10           | 10        |
| Risk free rate (%)             | 4.2/4.6   | 4.2/4.9   | 4.2/4.9      | 4.2/4.8   |
| Expected dividends (yield) (%) | 3.5       | 3.5       | 3.5          | 3.5/3.7   |
| Fair value (%)                 | 24.3/32.3 | 26.5/34.9 | 28.8/35.6    | 28.3/36.6 |

The expected volatility is based on historical volatility over the last five years or five years prior to grant, where two amounts are shown, the first relates to cash settled awards. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a

term consistent with the assumed option life, where two amounts are shown, the first relates to cash settled awards. Where two fair values are quoted, the first relates to the grant date valuation of equity settled awards and the second is 31 December 2005 valuation of the cash settled awards.

A reconciliation of option movements over the year to 31 December 2005 is shown below:

|                            | 2005          |                                 | 2004          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 30,707,971    | £8.00                           | 27,866,978    | £7.73                           |
| Granted                    | 906,777       | £9.83                           | 6,119,426     | £9.36                           |
| Lapsed                     | (508,060)     | £7.87                           | (381,612)     | £7.56                           |
| Exercised                  | (7,472,028)   | £7.99                           | (2,896,821)   | £8.60                           |
| Outstanding at 31 December | 23,634,660    | £8.08                           | 30,707,971    | £8.00                           |
| Exercisable at 31 December | 8,303,114     | £8.21                           | 4,763,342     | £9.00                           |

| Range of exercise price | 2005                            |               |                                  |                   | 2004                            |               |                                  |                   |
|-------------------------|---------------------------------|---------------|----------------------------------|-------------------|---------------------------------|---------------|----------------------------------|-------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   |
|                         |                                 |               | Expected years                   | Contractual years |                                 |               | Expected years                   | Contractual years |
| £6.905/£10.395          | £8.08                           | 23,634,660    | 5                                | 7                 | —                               | —             | —                                | —                 |
| £6.905/£9.88            | —                               | —             | —                                | —                 | £8.00                           | 30,707,971    | 5                                | 7.6               |

#### 40. Share Based Payments continued

##### 2001 Performance Share Plan

##### Valuation

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

| Grant Date                     | 2005         |           | 2004    |         |
|--------------------------------|--------------|-----------|---------|---------|
|                                | 20 September | 9 March   | 9 June  | 4 March |
| Share price at grant date      | £11.89       | £9.71     | £9.21   | £9.355  |
| Shares granted                 | 8,410        | 1,488,580 | 171,011 | 825,920 |
| Vesting period (years)         | 3            | 3         | 3       | 3       |
| Expected option life (years)   | 10           | 10        | 10      | 10      |
| Expected dividends (yield) (%) | 3.5          | 3.5/3.7   | 3.9     | 3.5/3.9 |
| Fair value (EPS) (%)           | 90           | 90        | 90      | 90      |
| Fair value (TSR) (%)           | 39           | 39        | 39      | 39      |

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant. Where two amounts are shown the first relates to cash settled awards. The fair value shown is for both grant date valuation of equity settled awards and 31 December 2005 valuation of the cash settled awards.

A reconciliation of option movements over the year to 31 December 2005 is shown below:

|                            | 2005          |                                 | 2004          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 3,066,957     | –                               | 2,633,736     | –                               |
| Granted                    | 1,505,589     | –                               | 1,000,025     | –                               |
| Lapsed                     | (199,379)     | –                               | (272,402)     | –                               |
| Exercised                  | (453,441)     | –                               | (294,402)     | –                               |
| Outstanding at 31 December | 3,919,726     | –                               | 3,066,957     | –                               |
| Exercisable at 31 December | 390,792       | –                               | 86,928        | –                               |

| Range of exercise price | 2005                            |               |                                  |                   | 2004                            |               |                                  |                   |
|-------------------------|---------------------------------|---------------|----------------------------------|-------------------|---------------------------------|---------------|----------------------------------|-------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   |
|                         |                                 |               | Expected years                   | Contractual years |                                 |               | Expected years                   | Contractual years |
| n/a                     | –                               | 3,919,726     | –                                | 8.1               | –                               | 3,066,957     | –                                | 8.2               |

##### 1997 Restricted Share Scheme

##### Valuation

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

| Grant date                     | 2005         |         |           | 2004         |           |
|--------------------------------|--------------|---------|-----------|--------------|-----------|
|                                | 20 September | 14 June | 9 March   | 14 September | 4 March   |
| Share price at grant date      | £11.89       | £10.395 | £9.71     | £9.58        | £9.355    |
| Shares granted                 | 427,472      | 36,335  | 2,431,561 | 222,976      | 1,162,789 |
| Vesting period (years)         | 2/3          | 2/3     | 2/3       | 2/3          | 2/3       |
| Expected option life (years)   | 7            | 7       | 7         | 7            | 7         |
| Expected dividends (yield) (%) | 3.5          | 3.5     | 3.5       | 3.5/4        | 3.5/3.9   |
| Fair value (%)                 | 90           | 90/92   | 90/92     | 90/91        | 90/91     |

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant, where two amounts are shown, the first relates to cash settled awards. Where two fair values are quoted, the first relates to 31 December 2005 valuation of the cash settled awards and the second relates to the grant date valuation of equity settled awards.

## Notes to the Accounts continued

### 40. Share Based Payments continued

A reconciliation of option movements over the year to 31 December 2005 is shown below:

|                            | 2005          |                                 | 2004          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 5,396,020     | –                               | 5,562,480     | –                               |
| Granted                    | 2,993,901     | –                               | 1,603,121     | –                               |
| Lapsed                     | (235,377)     | –                               | (278,383)     | –                               |
| Exercised                  | (1,744,500)   | –                               | (1,491,198)   | –                               |
| Outstanding at 31 December | 6,410,044     | –                               | 5,396,020     | –                               |
| Exercisable at 31 December | 1,613,044     | –                               | 1,477,020     | –                               |

| Range of exercise price | 2005                            |               |                                  |                   | 2004                            |               |                                  |                   |
|-------------------------|---------------------------------|---------------|----------------------------------|-------------------|---------------------------------|---------------|----------------------------------|-------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   |
|                         |                                 |               | Expected years                   | Contractual years |                                 |               | Expected years                   | Contractual years |
| n/a                     | –                               | 6,410,044     | –                                | 4.6               | –                               | 5,396,020     | –                                | 4.6               |

### 2004 UK and International Sharesave

#### Valuation

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

| Grant Date                     | 2005         |             | 2004         |             |
|--------------------------------|--------------|-------------|--------------|-------------|
|                                | 20 September | 8 September | 14 September | 8 September |
| Share price at grant date      | £11.89       | £12.25      | £9.58        | £9.70       |
| Exercise price                 | £9.87        | £9.87       | £7.43        | £7.43       |
| Shares granted                 | 5,537,252    | 307,238     | 1,815,067    | 232,956     |
| Vesting period (years)         | 3/5          | 3/5         | 3/5          | 3/5         |
| Expected volatility (%)        | 21/31        | 25/31       | 17/36        | 33/36       |
| Expected option life (years)   | 3.33/5.33    | 3.33/5.33   | 3.33/5.33    | 3.33/5.33   |
| Risk free rate (%)             | 4.2          | 4.1         | 4.2/4.9      | 4.9         |
| Expected dividends (yield) (%) | 3.5/3.7      | 3.5/3.7     | 3.1/3.9      | 3.4/3.9     |
| Fair value (%)                 | 24/33        | 24/31       | 31/42        | 31/37       |

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to grant, where two amounts are shown, the first relates to cash settled awards. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life, where two amounts are quoted, the first relates to equity settled awards. The expected dividends yield is based on historical dividend yield

over the last three years or three years prior to grant, where two amounts are shown, the first relates to cash settled awards. Where two fair values are quoted, the first relates to the grant date valuation of equity settled awards and the second is 31 December 2005 valuation of the cash settled awards. All options granted on 8 September 2005 and 8 September 2004 are equity settled awards only.

#### 40. Share Based Payments continued

A reconciliation of option movements over the year to 31 December 2005 is shown below:

|                            | 2005          |                                 | 2004          |                                 |
|----------------------------|---------------|---------------------------------|---------------|---------------------------------|
|                            | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January   | 2,375,938     | £7.43                           | –             | –                               |
| Granted                    | 5,902,540     | £9.87                           | 2,432,949     | £7.43                           |
| Lapsed                     | (382,193)     | £7.80                           | (57,011)      | £7.43                           |
| Exercised                  | (3,772)       | £7.43                           | –             | –                               |
| Outstanding at 31 December | 7,892,513     | £9.24                           | 2,375,938     | £7.43                           |
| Exercisable at 31 December | –             | –                               | –             | –                               |

| Range of exercise price | 2005                            |               |                                  |                   | 2004                            |               |                                  |                   |
|-------------------------|---------------------------------|---------------|----------------------------------|-------------------|---------------------------------|---------------|----------------------------------|-------------------|
|                         | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   | Weighted average exercise price | No. of shares | Weighted average remaining life: |                   |
|                         |                                 |               | Expected years                   | Contractual years |                                 |               | Expected years                   | Contractual years |
| £7.43/£9.87             | £9.24                           | 7,892,513     | 3.33/5.33                        | 3.6               | £7.43                           | 2,375,938     | 3.33/5.33                        | 3.6               |

#### 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 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, from time to time, the trust to enable the trustee to acquire shares to satisfy these awards.

The 1995 trust has acquired 11,700,000 (31 December 2004: 8,220,000) Standard Chartered PLC shares from the Company which are held in a pool for the benefit of participants under the

Group's Restricted Share Scheme, Performance Share Plan and Executive Shares Option Schemes. The purchase of these shares has been fully funded by the Group. At 31 December 2005, the 1995 trust held 13,631,745 (31 December 2004: 12,127,841) shares, of which 11,521,682 (31 December 2004: 11,854,754) have vested unconditionally.

The 2004 trust has acquired, at market value, 422,659 (31 December 2004: 178,926) Standard Chartered PLC shares, 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 2005, the 2004 trust held 409,160 (31 December 2004: 178,926) Standard Chartered PLC shares, of which 7,333 (31 December 2004: nil) have vested unconditionally.

## Notes to the Accounts continued

### 41. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

|                                                    | Group             |                   | Company           |                   |
|----------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                    | 2005<br>\$million | 2004<br>\$million | 2005<br>\$million | 2004<br>\$million |
| Cash and balances at central banks                 | 8,012             | 3,961             | –                 | –                 |
| Less restricted balances                           | (4,269)           | (1,860)           | –                 | –                 |
| Treasury bills and other eligible bills            | 4,049             | 3,666             | –                 | –                 |
| Loans and advances to banks                        | 17,590            | 10,292            | –                 | –                 |
| Trading securities                                 | 9,844             | 6,053             | –                 | –                 |
| Amounts owed by and due to subsidiary undertakings | –                 | –                 | 1,590             | 1,603             |
| <b>Total</b>                                       | <b>35,226</b>     | <b>22,112</b>     | <b>1,590</b>      | <b>1,603</b>      |

### 42. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

|                | 2005<br>\$million | 2004<br>\$million |
|----------------|-------------------|-------------------|
| Contracted     | 5                 | 6                 |
| Not contracted | 2                 | 2                 |

### 43. Operating Lease Commitments

|                                                                     | 2005                  |                        | 2004                  |                        |
|---------------------------------------------------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                                                                     | Premises<br>\$million | Equipment<br>\$million | Premises<br>\$million | Equipment<br>\$million |
| <b>Commitments under non-cancellable operating leases expiring:</b> |                       |                        |                       |                        |
| Within one year                                                     | 92                    | 4                      | 82                    | 3                      |
| Later than one year and less than five years                        | 179                   | 3                      | 153                   | 4                      |
| After five years                                                    | 153                   | –                      | 77                    | –                      |
|                                                                     | <b>424</b>            | <b>7</b>               | <b>312</b>            | <b>7</b>               |

During the year \$93 million (2004: \$93 million) was recognised as an expense in the income statement in respect of operating leases.

The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2005 is \$17 million (2004: \$21 million).

#### 44. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

The credit equivalent and risk weighted amounts have been calculated in accordance with the Financial Services Authority guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

|                                                                                   | 2005                                                          |                                             |                                         | 2004                                                          |                                             |                                         |
|-----------------------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------------|---------------------------------------------|-----------------------------------------|
|                                                                                   | Contract or<br>underlying<br>principal<br>amount<br>\$million | Credit<br>equivalent<br>amount<br>\$million | Risk<br>weighted<br>amount<br>\$million | Contract or<br>underlying<br>principal<br>amount<br>\$million | Credit<br>equivalent<br>amount<br>\$million | Risk<br>weighted<br>amount<br>\$million |
| <b>Contingent liabilities</b>                                                     |                                                               |                                             |                                         |                                                               |                                             |                                         |
| Acceptances and endorsements*                                                     | –                                                             | –                                           | –                                       | 976                                                           | 976                                         | 842                                     |
| Guarantees and irrevocable letters<br>of credit                                   | 15,952                                                        | 11,106                                      | 7,704                                   | 15,942                                                        | 9,976                                       | 8,146                                   |
| Other contingent liabilities                                                      | 6,295                                                         | 5,134                                       | 2,995                                   | 3,139                                                         | 2,414                                       | 1,221                                   |
|                                                                                   | 22,247                                                        | 16,240                                      | 10,699                                  | 20,057                                                        | 13,366                                      | 10,209                                  |
| <b>Commitments</b>                                                                |                                                               |                                             |                                         |                                                               |                                             |                                         |
| Documentary credits and short term trade-<br>related transactions                 | 3,730                                                         | 746                                         | 572                                     | 2,924                                                         | 585                                         | 494                                     |
| Forward asset purchases and forward<br>deposits placed                            | 141                                                           | 141                                         | 28                                      | 54                                                            | 54                                          | 11                                      |
| Undrawn formal standby facilities, credit<br>lines and other commitments to lend: |                                                               |                                             |                                         |                                                               |                                             |                                         |
| One year and over                                                                 | 11,128                                                        | 5,564                                       | 3,956                                   | 9,140                                                         | 4,570                                       | 4,133                                   |
| Less than one year                                                                | 18,690                                                        | –                                           | –                                       | 8,903                                                         | –                                           | –                                       |
| Unconditionally cancellable                                                       | 28,705                                                        | –                                           | –                                       | 25,933                                                        | –                                           | –                                       |
|                                                                                   | 62,394                                                        | 6,451                                       | 4,556                                   | 46,954                                                        | 5,209                                       | 4,638                                   |

\* Acceptances and endorsements are recorded on balance sheet with the adoption of IAS 39.

#### 45. Repurchase and Reverse Repurchase Agreements

The Group enters into collateralised reverse repurchase and repurchase agreements as part of credit and funding arrangements.

##### Balance sheet assets

|           | 2005                                             | 2004                                             |
|-----------|--------------------------------------------------|--------------------------------------------------|
|           | Reverse<br>repurchase<br>agreements<br>\$million | Reverse<br>repurchase<br>agreements<br>\$million |
| Banks     | 1,267                                            | 924                                              |
| Customers | 185                                              | 139                                              |
|           | 1,452                                            | 1,063                                            |

##### Balance sheet liabilities

|           | 2005                                  | 2004                                  |
|-----------|---------------------------------------|---------------------------------------|
|           | Repurchase<br>agreements<br>\$million | Repurchase<br>agreements<br>\$million |
| Banks     | 961                                   | 1,203                                 |
| Customers | 964                                   | 1,001                                 |
|           | 1,925                                 | 2,204                                 |

## Notes to the Accounts continued

### 45. Repurchase and Reverse Repurchase Agreements continued

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

|                                                                                                                                          | 2005<br>\$million | 2004<br>\$million |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Securities and collateral which can be repledged or sold (at fair value)                                                                 | 1,434             | 1,014             |
| Thereof repledged/transferred to others for financing activities or to satisfy commitments under short sale transactions (at fair value) | 629               |                   |

### 46. Interest Rate Risk

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. The Group and Company uses derivatives to manage effective interest rates whether or not hedge accounting is achieved. In particular they use interest rate swaps to exchange fixed rates of interest for floating rates of interest.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

The risk section of the Financial Review on pages 28 to 36 explains the Group's and Company's risk management with respect to asset and liability management and is incorporated in these financial statements accordingly.

The 2004 table is in accordance with UK GAAP.

|                                                    | 2005                       |                                |                                               |                                           |                                           |                                |                                |                 |
|----------------------------------------------------|----------------------------|--------------------------------|-----------------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------|--------------------------------|-----------------|
|                                                    | Effective interest rates % | Three months or less \$million | Between three months and six months \$million | Between six months and one year \$million | Between one year and five years \$million | More than five years \$million | Non-interest bearing \$million | Total \$million |
| <b>Assets</b>                                      |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Cash and balances at central banks                 | 1.2%                       | 841                            | –                                             | –                                         | –                                         | –                              | 7,171                          | 8,012           |
| Derivative financial instruments                   | N/A                        | 3,541                          | 827                                           | 917                                       | 1,989                                     | 1,144                          | 952                            | 9,370           |
| Loans and advances to banks*                       | 3.3%                       | 17,974                         | 1,082                                         | 880                                       | 664                                       | 82                             | 2,277                          | 22,959          |
| Loans and advances to customers*                   | 6.1%                       | 84,355                         | 8,634                                         | 5,790                                     | 8,406                                     | 5,254                          | (262)                          | 112,177         |
| Investment securities*                             | 4.0%                       | 13,388                         | 12,534                                        | 7,605                                     | 8,253                                     | 3,769                          | 1,003                          | 46,552          |
| Other assets                                       | N/A                        | 894                            | –                                             | –                                         | 87                                        | –                              | 15,045                         | 16,026          |
| <b>Total assets</b>                                | <b>5.1%</b>                | <b>120,993</b>                 | <b>23,077</b>                                 | <b>15,192</b>                             | <b>19,399</b>                             | <b>10,249</b>                  | <b>26,186</b>                  | <b>215,096</b>  |
| <b>Liabilities</b>                                 |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Deposits by banks*                                 | 2.9%                       | 12,587                         | 4,611                                         | 825                                       | 570                                       | 459                            | 1,221                          | 20,273          |
| Customer accounts*                                 | 2.6%                       | 91,216                         | 5,644                                         | 6,391                                     | 1,697                                     | 2,918                          | 13,073                         | 120,939         |
| Derivative financial instruments                   | N/A                        | 4,095                          | 936                                           | 1,111                                     | 2,194                                     | 927                            | 601                            | 9,864           |
| Debt securities in issue*                          | 3.1%                       | 9,348                          | 6,870                                         | 6,671                                     | 4,003                                     | 522                            | –                              | 27,414          |
| Other liabilities                                  | N/A                        | 1,222                          | –                                             | 32                                        | 251                                       | 109                            | 12,310                         | 13,924          |
| Subordinated liabilities and other borrowed funds* | 4.8%                       | –                              | –                                             | 142                                       | 2,345                                     | 7,862                          | –                              | 10,349          |
| <b>Total liabilities</b>                           | <b>2.9%</b>                | <b>118,468</b>                 | <b>18,061</b>                                 | <b>15,172</b>                             | <b>11,060</b>                             | <b>12,797</b>                  | <b>27,205</b>                  | <b>202,763</b>  |
| Off balance sheet items                            |                            | 514                            | 156                                           | (669)                                     | (391)                                     | –                              | –                              | –               |
| Interest rate sensitivity gap                      |                            | 3,039                          | 5,172                                         | (649)                                     | 7,948                                     | (2,548)                        | (1,019)                        | 12,333          |
| Cumulative gap                                     |                            | 3,039                          | 8,211                                         | 7,562                                     | 15,510                                    | 12,962                         | 11,943                         |                 |

\* Includes balances subject to fixed rates of interest. Financial assets and liabilities with fixed interest total \$49,370 million (2004: \$33,908 million) and \$16,283 million (2004: \$9,725 million) respectively.

## 46. Interest Rate Risk continued

| 2004                                              |                            |                                |                                               |                                           |                                           |                                |                                |                 |
|---------------------------------------------------|----------------------------|--------------------------------|-----------------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------|--------------------------------|-----------------|
|                                                   | Effective interest rates % | Three months or less \$million | Between three months and six months \$million | Between six months and one year \$million | Between one year and five years \$million | More than five years \$million | Non-interest bearing \$million | Total \$million |
| <b>Assets</b>                                     |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Cash and balances at central banks                | 1.4%                       | 545                            | –                                             | –                                         | 2                                         | –                              | 3,413                          | 3,960           |
| Loans and advances to banks                       | 2.6%                       | 9,998                          | 2,934                                         | 1,171                                     | 2,540                                     | 153                            | 586                            | 17,382          |
| Loans and advances to customers                   | 5.4%                       | 51,931                         | 8,412                                         | 3,062                                     | 5,754                                     | 3,216                          | (216)                          | 72,159          |
| Investment securities                             | 3.7%                       | 16,232                         | 4,753                                         | 6,321                                     | 7,462                                     | 1,772                          | 980                            | 37,520          |
| Other assets                                      | N/A                        | 4,933                          | 1,481                                         | 1,526                                     | 2,161                                     | 1,150                          | 4,852                          | 16,103          |
| <b>Total assets</b>                               | <b>4.5%</b>                | <b>83,639</b>                  | <b>17,580</b>                                 | <b>12,080</b>                             | <b>17,919</b>                             | <b>6,291</b>                   | <b>9,615</b>                   | <b>147,124</b>  |
| <b>Liabilities</b>                                |                            |                                |                                               |                                           |                                           |                                |                                |                 |
| Deposits by banks                                 | 2.4%                       | 10,456                         | 2,533                                         | 1,137                                     | 909                                       | –                              | 779                            | 15,814          |
| Customer accounts                                 | 1.5%                       | 67,012                         | 2,774                                         | 2,791                                     | 1,095                                     | 48                             | 11,738                         | 85,458          |
| Debt securities in issue                          | 1.7%                       | 5,450                          | 1,540                                         | 1,729                                     | 2,654                                     | 254                            | –                              | 11,627          |
| Other liabilities                                 | N/A                        | 5,055                          | 1,405                                         | 1,445                                     | 2,180                                     | 1,610                          | 5,693                          | 17,388          |
| Subordinated liabilities and other borrowed funds | 6.1%                       | 786                            | –                                             | –                                         | 1,305                                     | 4,677                          | –                              | 6,768           |
| <b>Total liabilities</b>                          | <b>2.0%</b>                | <b>88,759</b>                  | <b>8,252</b>                                  | <b>7,102</b>                              | <b>8,143</b>                              | <b>6,589</b>                   | <b>18,210</b>                  | <b>137,055</b>  |
| Off balance sheet items                           |                            | 495                            | 102                                           | (176)                                     | (352)                                     | (69)                           | –                              | –               |
| Interest rate sensitivity gap                     |                            | (4,625)                        | 9,430                                         | 4,802                                     | 9,424                                     | (367)                          | (8,595)                        | 10,069          |
| Cumulative gap                                    |                            | (4,625)                        | 4,805                                         | 9,607                                     | 19,031                                    | 18,664                         | 10,069                         |                 |

The Company incurs interest rate risk on its subordinated liabilities and other borrowings. \$1,558 million (2004: \$1,588 million) is at floating rates maturing over five years. \$343 million (2004: \$nil) is fixed rate maturing over five years. The effective yield is 4.8 per cent (2004: 2.3 per cent).

## Notes to the Accounts continued

### 47. Liquidity Risk

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

The risk section of the Financial Review on pages 28 to 36 explains the Group's and Company's risk management with respect to asset and liability management and is incorporated in these financial statements accordingly.

|                                                   | 2005                           |                                               |                                           |                                |                 |
|---------------------------------------------------|--------------------------------|-----------------------------------------------|-------------------------------------------|--------------------------------|-----------------|
|                                                   | Three months or less \$million | Between three months and one year \$million   | Between one year and five years \$million | More than five years \$million | Total \$million |
| <b>Assets</b>                                     |                                |                                               |                                           |                                |                 |
| Cash and balances at central banks                | 4,372                          | –                                             | 23                                        | 3,617                          | 8,012           |
| Derivative financial instruments                  | 3,668                          | 2,055                                         | 1,960                                     | 1,687                          | 9,370           |
| Loans and advances to banks                       | 18,090                         | 2,623                                         | 2,164                                     | 82                             | 22,959          |
| Loans and advances to customers                   | 31,770                         | 20,303                                        | 23,196                                    | 36,908                         | 112,177         |
| Investment securities                             | 14,764                         | 13,818                                        | 13,177                                    | 4,793                          | 46,552          |
| Other assets                                      | 2,295                          | 360                                           | 690                                       | 12,681                         | 16,026          |
| <b>Total assets</b>                               | <b>74,959</b>                  | <b>39,159</b>                                 | <b>41,210</b>                             | <b>59,768</b>                  | <b>215,096</b>  |
| <b>Liabilities</b>                                |                                |                                               |                                           |                                |                 |
| Deposits by banks                                 | 16,597                         | 2,740                                         | 879                                       | 57                             | 20,273          |
| Customer accounts                                 | 103,289                        | 14,451                                        | 2,371                                     | 828                            | 120,939         |
| Derivative financial instruments                  | 4,290                          | 2,365                                         | 2,810                                     | 399                            | 9,864           |
| Debt securities in issue                          | 7,246                          | 14,168                                        | 5,064                                     | 936                            | 27,414          |
| Other liabilities                                 | 1,919                          | 587                                           | 732                                       | 10,686                         | 13,924          |
| Subordinated liabilities and other borrowed funds | –                              | –                                             | 2,741                                     | 7,608                          | 10,349          |
| <b>Total liabilities</b>                          | <b>133,341</b>                 | <b>34,311</b>                                 | <b>14,597</b>                             | <b>20,514</b>                  | <b>202,763</b>  |
| <b>Net liquidity gap</b>                          | <b>(58,382)</b>                | <b>4,848</b>                                  | <b>26,613</b>                             | <b>39,254</b>                  | <b>12,333</b>   |
| <b>2004</b>                                       |                                |                                               |                                           |                                |                 |
|                                                   | Three months or less \$million | Between three months and six months \$million | Between one year and five years \$million | More than five years \$million | Total \$million |
| <b>Total assets</b>                               | <b>42,203</b>                  | <b>25,405</b>                                 | <b>11,429</b>                             | <b>68,087</b>                  | <b>147,124</b>  |
| <b>Total liabilities</b>                          | <b>96,036</b>                  | <b>9,911</b>                                  | <b>6,763</b>                              | <b>24,345</b>                  | <b>137,055</b>  |
| <b>Net liquidity gap</b>                          | <b>(53,833)</b>                | <b>15,494</b>                                 | <b>4,666</b>                              | <b>43,742</b>                  | <b>10,069</b>   |

The Company has financial liabilities of \$1,893 million (2004: \$1,588 million) maturing in five years or more.

#### 48. Currency Risk

This table shows the extent to which the Group's exposure to foreign currency risk at 31 December 2005.

The risk section of the Financial Review on pages 28 to 36 explains the Group's and Company's risk management with respect to asset and liability management and is incorporated in these financial statements accordingly.

| 2005 (million)    |           |           |            |                  |                   |              |               |                  |         |
|-------------------|-----------|-----------|------------|------------------|-------------------|--------------|---------------|------------------|---------|
|                   | US dollar | HK dollar | Korean won | Singapore dollar | Malaysian ringgit | Indian rupee | British pound | Other currencies | Total   |
| Total assets      | 52,970    | 31,890    | 55,801     | 13,801           | 7,880             | 8,535        | 6,606         | 37,613           | 215,096 |
| Total liabilities | 52,780    | 28,902    | 51,689     | 12,691           | 7,324             | 7,416        | 6,837         | 35,124           | 202,763 |
| Net position      | 190       | 2,988     | 4,112      | 1,110            | 556               | 1,119        | (231)         | 2,489            | 12,333  |

| 2004 (million)    |           |           |            |                  |                   |              |               |                  |         |
|-------------------|-----------|-----------|------------|------------------|-------------------|--------------|---------------|------------------|---------|
|                   | US dollar | HK dollar | Korean won | Singapore dollar | Malaysian ringgit | Indian rupee | British pound | Other currencies | Total   |
| Total assets      | 34,945    | 30,694    | 2,995      | 14,877           | 7,409             | 7,205        | 4,370         | 44,629           | 147,124 |
| Total liabilities | 35,602    | 27,170    | 2,858      | 13,773           | 6,672             | 6,174        | 4,379         | 40,427           | 137,055 |
| Net position      | (657)     | 3,524     | 137        | 1,104            | 737               | 1,031        | (9)           | 4,202            | 10,069  |

The Company's assets and liabilities are predominately in US dollars. It has assets of \$254 million (2004: \$326 million) and liabilities of \$282 million (2004: \$477 million) other than US dollars.

Group's structural currency exposures for 2004 under UK GAAP were:

|                     | Net investments in overseas units<br>\$ million | Borrowing in functional currency of units being hedged<br>\$ million | Structural currency exposure<br>\$ million |
|---------------------|-------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------|
| Hong Kong dollar    | 2,920                                           |                                                                      | 2,920                                      |
| Singapore dollar    | 1,080                                           |                                                                      | 1,080                                      |
| British pound       | 952                                             | (952)                                                                | –                                          |
| Indian rupee        | 650                                             |                                                                      | 650                                        |
| Malaysia ringgit    | 509                                             |                                                                      | 509                                        |
| Other non US dollar | 1,742                                           |                                                                      | 1,742                                      |
|                     | 7,853                                           | (952)                                                                | 6,901                                      |

Structural currency exposures for 2004 relate to net investments in non US dollar units.

The Group's main operations in non US dollar units were Asia, Africa, India and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore include Hong Kong dollar, Malaysian ringgit, Singapore dollar, Indian rupee and British pound. The Group prepares its consolidated financial statements in US dollars, and the Group's consolidated balance sheet is affected by movements in the exchange rates between functional currencies and US dollars.

In 2005, the major changes were the elimination of British pound structural exposure and an increase in the Korean won subsequent to the acquisition of SCFB. These currency exposures are referred to as structural. Translation gains and losses arising from these exposures are recognised in the Consolidated Statement of Recognised Income and Expenses.

The risk section of the Financial Review on pages 28 to 36 explains the risk management with respect to the Group's hedging policies.

## Notes to the Accounts continued

### 49. 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.

|                                                      | 2005                     |                         |
|------------------------------------------------------|--------------------------|-------------------------|
|                                                      | Book amount<br>\$million | Fair value<br>\$million |
| <b>Assets</b>                                        |                          |                         |
| Cash and balances at central banks                   | 8,012                    | 8,012                   |
| Loans and advances to banks                          | 21,671                   | 21,671                  |
| Loans and advances to customers                      | 111,686                  | 111,863                 |
| Investment securities – held to maturity             | 1,479                    | 1,470                   |
| <b>Liabilities</b>                                   |                          |                         |
| Deposits by banks                                    | 18,834                   | 18,834                  |
| Customer accounts                                    | 119,931                  | 119,922                 |
| Debt securities in issue                             | 25,913                   | 25,883                  |
| Subordinated liabilities and other borrowed funds    | 10,349                   | 10,543                  |
|                                                      |                          |                         |
|                                                      | 2004                     |                         |
|                                                      | Book amount<br>\$million | Fair value<br>\$million |
| Treasury bills and other eligible bills – investment | 4,189                    | 4,188                   |
| Debt securities and other fixed income securities    | 24,709                   | 24,740                  |
| Equity shares and other variable yield investments   | 253                      | 295                     |
| Derivative assets – non-trading book                 | –                        | 50                      |
| Derivative liabilities – non-trading book            | –                        | 37                      |
| Financial liabilities                                | 12,013                   | 11,833                  |

The following sets out the Group's basis of establishing fair values of the financial instruments shown above and derivatives and available-for-sale assets presented in notes 13,15,16,17 and 21.

#### Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

#### Loans and advances to banks

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money-market rates for debts with a similar credit risk and remaining maturity.

#### Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

#### Investment securities

Investment securities, including debt and equity securities, with observable market prices are fair valued using that information. Equity instruments held that do not have observable market data are presented at cost. Debt securities that do not have observable market data are fair valued by either discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit, maturity and yield characteristics.

#### Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

#### Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

#### Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

## 50. Market Risk

### Trading book

|                             | 2005                 |                   |                  |                     | 2004                 |                   |                  |                     |
|-----------------------------|----------------------|-------------------|------------------|---------------------|----------------------|-------------------|------------------|---------------------|
|                             | Average<br>\$million | High<br>\$million | Low<br>\$million | Actual<br>\$million | Average<br>\$million | High<br>\$million | Low<br>\$million | Actual<br>\$million |
| <b>Daily value at risk:</b> |                      |                   |                  |                     |                      |                   |                  |                     |
| Interest rate risk          | 4.0                  | 5.5               | 3.1              | 3.9                 | 3.3                  | 4.4               | 2.2              | 3.4                 |
| Foreign exchange risk       | 1.5                  | 2.8               | 1.0              | 1.1                 | 2.4                  | 4.5               | 1.2              | 3.0                 |
| <b>Total</b>                | <b>4.3</b>           | <b>5.9</b>        | <b>3.3</b>       | <b>3.9</b>          | <b>4.2</b>           | <b>6.0</b>        | <b>3.1</b>       | <b>5.1</b>          |

This note should be read in conjunction with the market risk section of the Financial Review on page 35 which explains the Group's market risk management and is incorporated in these financial statements accordingly.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group Trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. The highest and lowest VaR are independent and could have occurred on different days.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year and involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR Model.

VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from events, which the VaR methodology does not capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the GRC.

## Notes to the Accounts continued

### 51. Related Party Transactions

#### Directors and officers

##### Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 49 to 61.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises members of the Group Management Committee, which includes all executive directors.

|                                           | 2005<br>\$million | 2004<br>\$million |
|-------------------------------------------|-------------------|-------------------|
| Salaries, allowances and benefits in kind | 13                | 11                |
| Pension contributions                     | 1                 | 1                 |
| Bonuses paid or receivable                | 17                | 14                |
| Share based payments                      | 12                | 11                |
|                                           | 43                | 37                |

#### Transactions with directors, officers and others

At 31 December 2005, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the Listing Rules of the Stock Exchange of Hong Kong about loans to directors and officers were as follows:

|           | 2005   |        | 2004   |        |
|-----------|--------|--------|--------|--------|
|           | Number | \$'000 | Number | \$'000 |
| Directors | 2      | 22     | –      | –      |
| Officers* | 2      | 261    | 2      | 260    |

\* For this disclosure, the term 'officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the company secretary.

On 27 August 2004, Standard Chartered Links (HK) Limited, a wholly owned subsidiary of Standard Chartered PLC, completed the acquisition of the entire issued share capital of Advantage Limited from Goland Investment Limited, Winsgreat Limited (a wholly owned subsidiary of Sun Hung Kai Properties Limited ('SHK')) and Warshall Holdings Limited.

Mr Raymond Kwok, one of the directors of Standard Chartered Bank (Hong Kong) Limited (a wholly owned subsidiary of Standard Chartered PLC), is deemed to be interested (within the meaning of the Hong Kong Securities and Futures Ordinance) in 44.96 per cent of the shares in SHK, which in turn owns all the shares in Winsgreat Limited. Accordingly, Winsgreat is an associate of Mr Kwok and the acquisition of Winsgreat's shares in Advantage Limited is a connected transaction for Standard Chartered PLC.

On 16 December 2005, Standard Chartered Bank created a charge over \$11 million of cash assets in favour of the independent trustees of its employer financed retirement benefit schemes.

There were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the Listing Rules of the Stock Exchange of Hong Kong.

#### Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling \$28 million at 31 December 2005 (2004: \$35 million).

#### Associates

On 15 August 2005, the Group contributed \$128 million to China Bohai Bank Limited for its 19.99 per cent investment.

#### Company

The Company issues debt externally and lends the proceeds to Group companies. At 31 December 2005 it has loans and debt instruments issued to Standard Chartered Bank of \$1,796 million, \$40 million to SC Holdings Limited and \$3 million to other subsidiaries.

During the year the Company licensed intellectual property rights related to the Company's main brands for \$1,465 million over a period of 10 years to a newly formed, indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited. At the year end \$1,453 million (2004: \$nil) has been included as deferred income in the Company balance sheet in relation to this.

## 52. Post Balance Sheet Events

In January 2006 the Company issued 3,401,290 new ordinary shares at a price of 1301 pence per share representing approximately 0.26 per cent of the Company's existing issued ordinary share capital. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited. On 2 March 2006 a dividend of 45.06 cents per share was recommended.

## 53. Significant Accounting Estimates and Judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions of the affects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgements in respect of measuring financial instruments.

### Pensions

Actuarial assumptions are made in valuing future pension obligations as set out in note 35. There is uncertainty that these assumptions will continue in the future. They are updated periodically.

### Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and temporary differences where it is probable that there will be taxable revenue against which it can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

### Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

## 54. Forward Looking Statements

This document contains forward-looking statements, including such statements within the meaning of section 27A of the US Securities Act of 1993 and section 21E of the Securities Exchange Act of 1934. These statements concern, or may affect, future matters. These may include the Group's future strategies, business plans, and results and are based on the current expectations of the directors of Standard Chartered.

They are subject to a number of risks and uncertainties that might cause actual results and outcomes to differ materially from expectations outlined in these forward-looking statements. These factors are not limited to regulatory developments but include stock markets, IT developments, competitive and general operating conditions.

## 55. Transition to EU adopted IFRS

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements of the company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs").

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that are endorsed by the EU and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs.

### Application of IFRS 1: First-time adoption of International Financial Reporting standards

The Group's transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

### Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application.

#### (a) Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

#### (b) Fair value as deemed cost exemption

The Group has elected to deem as cost certain items of property, plant and equipment held at valuation as at 1 January 2004.

#### (c) Cumulative translation differences exemption

The Group has elected to set the previously accumulated cumulative translation to zero at 1 January 2004.

#### (d) Exemption from restatement of comparatives for IAS 32 and IAS 39

The Group elected to apply this exemption. It has applied previous UK GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required for differences between UK GAAP and IAS 32 and IAS 39 have been determined and recognised at 1 January 2005.

#### (e) Share-based payment transaction exemption

As the Group has not previously published information regarding the fair value of employee rewards, it has been required to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those equity settled share awards that were issued after 7 November 2002 but that have not vested by 1 January 2005.

### Exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from retrospective application.

## Notes to the Accounts continued

### 55. Transition to EU Adopted IFRS continued

#### (f) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management did not choose to apply the IAS 39 derecognition criteria to an earlier date.

#### (g) Estimates exception

Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous UK GAAP, unless there is evidence that those estimates were in error.

### Reconciliations between IFRS and UK GAAP

The following reconciliations provide details of the impact of the transition on:

- profit for the year ended 31 December 2004 (excluding IAS 32/39)
- equity at 1 January 2004 (excluding IAS 32/39)
- equity at 31 December 2004 (excluding IAS 32/39)
- balance sheet at 31 December 2004 (excluding IAS 32/39)
- equity at 1 January 2005 (including IAS 32/39)

An explanation of the adjustments and the Group's accounting policies under IFRS is set out in the presentation and press release entitled "Standard Chartered PLC Results for 2004 Restated Under International Financial Reporting Standards" dated 12 May 2005. Copies of this document are available from the Group's website at: <http://investors.standardchartered.com>

### Reconciliation of profit for the year ended 31 December 2004 – Group

|                                                                          | Notes | UK GAAP<br>\$million | Effect of transition<br>to IFRS<br>\$million | IFRS<br>\$million |
|--------------------------------------------------------------------------|-------|----------------------|----------------------------------------------|-------------------|
| Interest income                                                          | a     | 5,232                | 80                                           | 5,312             |
| Interest expense                                                         | a     | (2,064)              | (66)                                         | (2,130)           |
| <b>Net interest income</b>                                               |       | <b>3,168</b>         | <b>14</b>                                    | <b>3,182</b>      |
| Other finance income                                                     | b     | 10                   | (10)                                         | –                 |
| Fees and commissions income                                              | a     | 1,617                | (3)                                          | 1,614             |
| Fees and commissions expense                                             | a     | (283)                | 1                                            | (282)             |
| Net trading income                                                       | a     | 648                  | 3                                            | 651               |
| Other operating income                                                   | b     | 207                  | 10                                           | 217               |
|                                                                          |       | 2,189                | 11                                           | 2,200             |
| <b>Operating income</b>                                                  |       | <b>5,367</b>         | <b>15</b>                                    | <b>5,382</b>      |
| Staff costs                                                              | c     | (1,534)              | (25)                                         | (1,559)           |
| Premises costs                                                           |       | (321)                | –                                            | (321)             |
| Other administrative expenses                                            | b     | (721)                | (10)                                         | (731)             |
| Depreciation and amortisation                                            | d     | (420)                | 182                                          | (238)             |
| <b>Operating expenses</b>                                                |       | <b>(2,996)</b>       | <b>147</b>                                   | <b>(2,849)</b>    |
| <b>Operating profit before impairment losses and taxation</b>            |       | <b>2,371</b>         | <b>162</b>                                   | <b>2,533</b>      |
| Impairment losses on loans and advances and other credit risk provisions |       | (214)                | –                                            | (214)             |
| Income from joint ventures                                               | e     | 2                    | (2)                                          | –                 |
| Other impairment                                                         | d     | (1)                  | (67)                                         | (68)              |
| <b>Profit before taxation</b>                                            |       | <b>2,158</b>         | <b>93</b>                                    | <b>2,251</b>      |
| Taxation                                                                 | f     | (637)                | 7                                            | (630)             |
| <b>Profit for the year</b>                                               |       | <b>1,521</b>         | <b>100</b>                                   | <b>1,621</b>      |

## 55. Transition to EU Adopted IFRS continued

## Reconciliation of profit for the year ended 31 December 2004 – Group and Company

|                | Notes | Group<br>\$million | Company<br>\$million |
|----------------|-------|--------------------|----------------------|
| UK GAAP        |       | 1,521              | 663                  |
| Goodwill       | d     | 114                | –                    |
| Share options  | c     | (23)               | –                    |
| Consolidations | a     | 4                  | –                    |
| Tax            | f     | 7                  | –                    |
| Other          |       | (2)                | –                    |
| IFRS           |       | 1,621              | 663                  |

## (a) Consolidations

A fund in which the Group has an investment was not required to be consolidated under UK GAAP but is consolidated line by line under IFRS. Operating income and expenses increase by \$9 million and \$5 million respectively.

## (b) Reclassification

Under FRS 17 the finance cost of assets was recorded as Other finance income. \$10 million has been reclassified to Other operating income.

## (c) Share awards

IFRS 2 requires the fair valuation of all share based payments for those awards made after November 2002 and had not vested at 1 January 2005. This increased staff costs by \$23 million of the total \$25 million increase.

## (d) Goodwill

IFRS does not permit the amortisation of goodwill. Instead an annual review for impairment must be made. Goodwill amortised under UK GAAP of \$181 million was reversed. This included goodwill amortisation relating to Banco Standard Chartered in Latin America and the Lebanon. The amortisation of the carrying amount of this goodwill was expected to be fully amortised by 2005 under UK GAAP. In the 2004 IFRS comparatives, an impairment charge of \$67 million has been recorded to carry related goodwill at \$nil.

## (e) Joint venture

The Group adopted proportionate consolidation of its joint venture instead of equity accounting that was required under UK GAAP.

## (f) Tax

The tax effect of the above adjustments has been recorded in the taxation line of the income statement.

## Reconciliation of equity at 1 January 2004 – Group

|               | Notes | Share capital and<br>share premium<br>\$million | Capital and<br>capital<br>redemption<br>reserve<br>\$million | Premises<br>revaluation<br>\$million | Own shares<br>held in ESOP<br>Trusts<br>\$million | Retained<br>earnings<br>\$million | Minority<br>interest<br>\$million | Total equity<br>\$million |
|---------------|-------|-------------------------------------------------|--------------------------------------------------------------|--------------------------------------|---------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------|
| UK GAAP       |       | 3,752                                           | 16                                                           | (2)                                  | (60)                                              | 3,823                             | 614                               | 8,143                     |
| Dividends     | i     | –                                               | –                                                            | –                                    | –                                                 | 439                               | –                                 | 439                       |
| Fixed assets  | ii    | –                                               | –                                                            | 81                                   | –                                                 | (84)                              | –                                 | (3)                       |
| Share awards  | iii   | –                                               | –                                                            | –                                    | –                                                 | (3)                               | –                                 | (3)                       |
| Consolidation | iv    | –                                               | –                                                            | –                                    | –                                                 | 25                                | 6                                 | 31                        |
| Tax           | v     | –                                               | –                                                            | (22)                                 | –                                                 | (9)                               | –                                 | (31)                      |
| Other         |       | –                                               | –                                                            | –                                    | –                                                 | (9)                               | –                                 | (9)                       |
| IFRS          |       | 3,752                                           | 16                                                           | 57                                   | (60)                                              | 4,182                             | 620                               | 8,567                     |

## Notes to the Accounts continued

### 55. Transition to EU Adopted IFRS continued

#### Reconciliation of equity at 31 December 2004 – Group

|                | Notes | Share capital and share premium<br>\$million | Capital and capital redemption reserve<br>\$million | Premises revaluation<br>\$million | Own shares held in ESOP Trusts<br>\$million | Retained earnings<br>\$million | Minority interest<br>\$million | Total equity<br>\$million |
|----------------|-------|----------------------------------------------|-----------------------------------------------------|-----------------------------------|---------------------------------------------|--------------------------------|--------------------------------|---------------------------|
| <b>UK GAAP</b> |       | 3,802                                        | 16                                                  | (5)                               | (8)                                         | 4,630                          | 956                            | 9,391                     |
| Dividends      | i     | –                                            | –                                                   | –                                 | –                                           | 532                            | –                              | 532                       |
| Goodwill       | vi    | –                                            | –                                                   | –                                 | –                                           | 114                            | –                              | 114                       |
| Fixed assets   | ii    | –                                            | –                                                   | 81                                | –                                           | (84)                           | –                              | (3)                       |
| Share options  | iii   | –                                            | –                                                   | –                                 | –                                           | 16                             | –                              | 16                        |
| Consolidation  | iv    | –                                            | –                                                   | –                                 | –                                           | 27                             | 8                              | 35                        |
| Tax            | v     | –                                            | –                                                   | –                                 | –                                           | (4)                            | –                              | (4)                       |
| Other          |       | –                                            | –                                                   | –                                 | –                                           | (12)                           | –                              | (12)                      |
| <b>IFRS</b>    |       | 3,802                                        | 16                                                  | 76                                | (8)                                         | 5,219                          | 964                            | 10,069                    |

#### Reconciliation of balance sheet at 31 December 2004 – Group

|                                                            | Notes      | UK GAAP<br>\$million | Effect of transition to IFRS<br>\$million | IFRS<br>\$million | Reclassification to IFRS format<br>\$million | IFRS<br>\$million |
|------------------------------------------------------------|------------|----------------------|-------------------------------------------|-------------------|----------------------------------------------|-------------------|
| <b>Assets</b>                                              |            |                      |                                           |                   |                                              |                   |
| Cash and balances at central banks                         | iv, vii    | 2,269                | 1,691                                     | 3,960             | –                                            | 3,960             |
| Treasury bills and other eligible bills                    |            | 4,425                | –                                         | 4,425             | (4,425)                                      | –                 |
| Financial assets held at fair value through profit or loss |            | –                    | –                                         | –                 | 4,744                                        | 4,744             |
| Loans and advances to banks                                | iv, vii    | 18,922               | (1,540)                                   | 17,382            | (695)                                        | 16,687            |
| Loans and advances to customers                            | iv         | 71,596               | 563                                       | 72,159            | (140)                                        | 72,019            |
| Investment securities                                      | iv         | 28,295               | 4,547                                     | 32,842            | 769                                          | 33,611            |
| Equity shares                                              |            | 253                  | –                                         | 253               | (253)                                        | –                 |
| Interest in joint ventures                                 | iv         | 187                  | (187)                                     | –                 | –                                            | –                 |
| Intangible assets                                          | ii, iv, vi | 1,900                | 453                                       | 2,353             | –                                            | 2,353             |
| Property, plant and equipment                              | ii, iv     | 844                  | (289)                                     | 555               | –                                            | 555               |
| Deferred tax assets                                        |            | 276                  | (4)                                       | 272               | 46                                           | 318               |
| Other assets                                               | ii, iv     | 11,453               | 144                                       | 11,597            | –                                            | 11,597            |
| Prepayments and accrued income                             | iv         | 1,268                | 12                                        | 1,280             | –                                            | 1,280             |
| <b>Total assets</b>                                        |            | 141,688              | 5,390                                     | 147,078           | 46                                           | 147,124           |
| <b>Liabilities</b>                                         |            |                      |                                           |                   |                                              |                   |
| Deposits by banks                                          | iv         | 15,813               | 1                                         | 15,814            | (652)                                        | 15,162            |
| Customer accounts                                          | iv         | 84,572               | 886                                       | 85,458            | (365)                                        | 85,093            |
| Financial liabilities at fair value through profit or loss |            | –                    | –                                         | –                 | 2,392                                        | 2,392             |
| Debt securities in issue                                   | iv         | 7,378                | 4,249                                     | 11,627            | (622)                                        | 11,005            |
| Current tax liabilities                                    |            | 295                  | –                                         | 295               | –                                            | 295               |
| Other liabilities                                          | i, iv      | 16,066               | (524)                                     | 15,542            | (753)                                        | 14,789            |
| Accruals and deferred income                               | iii, iv    | 1,262                | 59                                        | 1,321             | –                                            | 1,321             |
| Provisions for liabilities and charges                     | iv         | 59                   | 2                                         | 61                | –                                            | 61                |
| Retirement benefit liabilities                             | iv         | 120                  | 3                                         | 123               | 46                                           | 169               |
| Other borrowed funds                                       | iv         | 6,732                | 36                                        | 6,768             | –                                            | 6,768             |
| <b>Total liabilities</b>                                   |            | 132,297              | 4,712                                     | 137,009           | 46                                           | 137,055           |
| Total parent company shareholders' equity                  |            | 8,435                | 670                                       | 9,105             | –                                            | 9,105             |
| Minority interests                                         |            | 956                  | 8                                         | 964               | –                                            | 964               |
| <b>Total equity</b>                                        |            | 9,391                | 678                                       | 10,069            | –                                            | 10,069            |
| <b>Total equity and liabilities</b>                        |            | 141,688              | 5,390                                     | 147,078           | 46                                           | 147,124           |

## 55. Transition to EU Adopted IFRS continued

### i Dividends

IFRS only permits the accrual of dividend liabilities when an obligation arises i.e. when declared. Under UK GAAP the final dividend was accrued in the period to which it related even if declared after year end. The effect is to reverse the final dividend accrual of \$532 million at 31 December 2004 and \$439 million at 1 January 2004.

### ii Fixed assets

Capitalised software was classified as fixed assets under UK GAAP. \$224 million was reclassified to intangible assets under IFRS requirements.

Under UK GAAP land associated with finance leased buildings was classified as fixed assets. IFRS requires leased land to be treated as an operating lease unless title transfers at the end of the lease. \$85 million was reclassified from fixed assets to other assets.

### iii Share awards

IFRS 2 requires the fair valuation of all share based payments for those awards made after November 2002 and had not vested at 1 January 2004. It also requires obligations to be recorded in equity for equity-settled awards rather than as liabilities. Accordingly, the obligations recorded in liabilities under UK GAAP have been reversed and replaced with credits to equity for fair values determined under IFRS 2.

### iv Consolidation

UK GAAP permitted the presentation of certain securitisations in a linked net manner and a fund in which the Group has an investment was not required to be consolidated. IFRS does not permit net linked presentation and the investment fund was line by line consolidated.

The Group adopted proportionate consolidation of its joint venture in place of equity accounting that was required under UK GAAP.

Total assets increase by \$5,281 million and total equity increased by \$16 million.

### v Tax

The tax effect of the above adjustments has been recorded.

### vi Goodwill

IFRS does not permit the amortisation of goodwill. Instead an annual review for impairment must be made. Goodwill amortised under UK GAAP of \$181 million was reversed. This included goodwill amortisation relating to Banco Standard Chartered in Latin America and the Standard Chartered Bank SAL in the Lebanon. The amortisation of the carrying amount of this goodwill was expected to fully amortised by 2005 under UK GAAP. In the 2004 IFRS comparatives, an impairment charge of \$67 million has been recorded to carry related goodwill at \$nil.

### vii Cash and cash equivalents

\$1,614 million of restricted cash balances with central banks has been reclassified from loans and advances to banks to cash and balances with central banks. It also includes cheques in the course of collection.

### Reclassification

On 12 May 2005 the Group presented its balance sheet restated under IFRS excluding IAS 32 and 39. The format of the balance sheet was similar to that used under UK GAAP. Subsequent clarification of the conventions of presenting balance sheets means the Group has made the following changes between lines (no measurement changes have been made):

- trading assets and assets designated as at fair value have been grouped in a single line called financial assets at fair value through profit or loss;
- treasury bills and equity shares have been included in investment securities if held at (amortised) cost or financial assets at fair value through profit or loss;
- trading liabilities and liabilities designated as at fair value have been grouped in a single line called financial liabilities at fair value through profit or loss; and
- deferred tax related to retirement benefits is now not netted with the retirement benefits liability and is now shown together with all other deferred tax balances.

## Notes to the Accounts continued

### 55. Transition to EU Adopted IFRS continued

#### Reconciliation of equity at 1 January 2005 – Group

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and 39. The table below shows the effects of IAS 32 and 39 on the balance sheet at 1 January 2005:

|                                  | Notes | Share capital/<br>premium and<br>redemption<br>reserve<br>\$million | AFS<br>reserves<br>\$million | Cash flow<br>hedge<br>reserve<br>\$million | Premises<br>revaluation<br>\$million | Retained<br>earnings<br>\$million | Minority<br>interest<br>\$million | Total equity<br>\$million |
|----------------------------------|-------|---------------------------------------------------------------------|------------------------------|--------------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|---------------------------|
| IFRS (excluding IAS 32/39)       |       | 3,818                                                               | –                            | –                                          | 76                                   | 5,211                             | 964                               | 10,069                    |
| Debt/equity                      | i     | (375)                                                               | –                            | –                                          | –                                    | 20                                | 994                               | 639                       |
| Effective yield                  | ii    | –                                                                   | –                            | –                                          | –                                    | 109                               | –                                 | 109                       |
| Derivatives/hedging              | iii   | –                                                                   | –                            | 61                                         | –                                    | 58                                | (4)                               | 115                       |
| Asset classification/fair values | iv    | –                                                                   | 87                           | –                                          | –                                    | (27)                              | –                                 | 60                        |
| Other                            |       | –                                                                   | –                            | –                                          | –                                    | (102)                             | –                                 | (102)                     |
| Impairment                       | v     | –                                                                   | –                            | –                                          | –                                    | 33                                | –                                 | 33                        |
| Tax                              | vi    | –                                                                   | (14)                         | (19)                                       | –                                    | (55)                              | –                                 | (88)                      |
| IFRS                             |       | 3,443                                                               | 73                           | 42                                         | 76                                   | 5,247                             | 1,954                             | 10,835                    |

#### Reconciliation of balance sheet items at 1 January 2005 - Group

|                                        | IFRS<br>(ex IAS 32/39)<br>\$million | Effect of<br>IAS 32 /39<br>\$million | IFRS<br>\$million |
|----------------------------------------|-------------------------------------|--------------------------------------|-------------------|
| <b>Assets</b>                          |                                     |                                      |                   |
| Financial assets held at fair value    | 4,744                               | 3,222                                | 7,966             |
| Derivative financial instruments       | –                                   | 12,680                               | 12,680            |
| Loans and advances to banks            | 16,687                              | (179)                                | 16,508            |
| Loans and advances to customers        | 72,019                              | (88)                                 | 72,107            |
| Investment securities                  | 33,611                              | (1,783)                              | 31,828            |
| Other assets                           | 11,597                              | (7,440)                              | 4,157             |
| <b>Liabilities</b>                     |                                     |                                      |                   |
| Deposits by banks                      | 15,162                              | –                                    | 15,162            |
| Customer accounts                      | 85,093                              | (320)                                | 84,773            |
| Financial liabilities at fair value    | 2,392                               | 1,316                                | 3,708             |
| Derivative financial instruments       | –                                   | 12,024                               | 12,024            |
| Debt securities in issue               | 11,005                              | 2                                    | 11,007            |
| Current tax liabilities                | 295                                 | 1                                    | 296               |
| Other liabilities                      | 14,789                              | (7,262)                              | 7,527             |
| Accruals and deferred income           | 1,321                               | 6                                    | 1,327             |
| Provisions for liabilities and charges | 61                                  | –                                    | 61                |
| Other borrowed funds                   | 6,768                               | (649)                                | 6,119             |

## 55. Transition to EU Adopted IFRS continued

### i Debt/equity

The Group's £100 million 7<sup>3</sup>/<sub>8</sub> and £100 million 8<sup>1</sup>/<sub>4</sub> per cent irredeemable £1 preference shares were reclassified from equity to subordinated liabilities and other borrowed funds. At the same time £200 million 7.75 per cent Step-Up Notes 2022 and £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities were reclassified as minority interests.

### ii Effective yield

Loan origination costs that are expensed under UK GAAP have been capitalised and are amortised as part of the effective yield.

### iii Derivatives

All derivatives are now recorded on balance sheet at fair value. Unrealised gains and losses that were not recognised under UK GAAP have been adjusted in reserves.

Trading derivative balances have been reclassified from other assets and liabilities under UK GAAP to a single derivatives line on the face of the balance sheet.

UK GAAP permitted netting of assets and liabilities where there was a legal right of offset. IFRS adds a condition that there must be an intention to settle net. The balance sheet has been grossed up where the netting requirements are not satisfied. A significant part of this is in the derivatives line where \$7.6 billion was grossed up on transition.

### iv Asset classification/fair values

On transition, IFRS permits designation of assets previously held at cost as available-for-sale or held at fair value through profit or loss. Reclassified assets have been revalued to fair value with the gains on available for sale assets deferring to reserves until maturity or sale and the losses on held at fair value through profit or loss to reserves on transition (and to profit or loss thereafter).

### v Impairment

IFRS requires a time-value of money discount to be recorded on impaired loans. It does not permit general bad debt provisions, which has been replaced with a portfolio impairment provision.

### vi Tax

The tax effect of the above adjustments has been recorded in the taxation line of the income statement.

## Reconciliation of equity at 1 January 2004 – Company

|                                            | Notes | Share capital and share premium<br>\$million | Capital & redemption reserve<br>\$million | Revaluation reserve<br>\$million | Retained earnings<br>\$million | Total equity<br>\$million |
|--------------------------------------------|-------|----------------------------------------------|-------------------------------------------|----------------------------------|--------------------------------|---------------------------|
| UK GAAP                                    |       | 3,752                                        | 16                                        | 3,476                            | 285                            | 7,529                     |
| Dividends                                  | i     | –                                            | –                                         | –                                | 439                            | 439                       |
| Share options and own shares               | ii    | –                                            | –                                         | –                                | (71)                           | (71)                      |
| Revaluation of investments in subsidiaries | iii   | –                                            | –                                         | (3,476)                          | –                              | (3,476)                   |
| Other                                      |       | –                                            | –                                         | –                                | (37)                           | (37)                      |
| IFRS                                       |       | 3,752                                        | 16                                        | –                                | 616                            | 4,384                     |

## Reconciliation of equity at 31 December 2004 – Company

|                                            | Notes | Share capital and share premium<br>\$million | Capital & redemption reserve<br>\$million | Revaluation reserve<br>\$million | Retained earnings<br>\$million | Total equity<br>\$million |
|--------------------------------------------|-------|----------------------------------------------|-------------------------------------------|----------------------------------|--------------------------------|---------------------------|
| UK GAAP                                    |       | 3,802                                        | 16                                        | 4,408                            | 209                            | 8,435                     |
| Dividends                                  | i     | –                                            | –                                         | –                                | 532                            | 532                       |
| Share options and own shares               | ii    | –                                            | –                                         | –                                | (71)                           | (71)                      |
| Revaluation of investments in subsidiaries | iii   | –                                            | –                                         | (4,408)                          | –                              | (4,408)                   |
| Other                                      |       | –                                            | –                                         | –                                | 24                             | 24                        |
| IFRS                                       |       | 3,802                                        | 16                                        | –                                | 694                            | 4,512                     |

## Notes to the Accounts continued

### 55. Transition to EU Adopted IFRS continued

#### Reconciliation of balance sheet at 31 December 2004 – Company

|                                                        |     | 2004<br>UK GAAP<br>\$million | Effects of<br>transition to IFRS<br>\$million | 2004<br>IFRS<br>\$million |
|--------------------------------------------------------|-----|------------------------------|-----------------------------------------------|---------------------------|
| <b>Non-current assets</b>                              |     |                              |                                               |                           |
| Investments in subsidiary undertakings                 | iii | 10,240                       | (5,948)                                       | 4,292                     |
| <b>Current assets</b>                                  |     |                              |                                               |                           |
| Amounts owed by subsidiary undertakings                | iii | 631                          | 1,590                                         | 2,221                     |
| Taxation                                               |     | 126                          | 80                                            | 206                       |
| Other                                                  |     | –                            | 7                                             | 7                         |
|                                                        |     | 757                          | 1,677                                         | 2,434                     |
| <b>Creditors: amounts due within one year</b>          |     |                              |                                               |                           |
| Proposed dividend                                      | i   | 524                          | (524)                                         | –                         |
| Amounts owed to subsidiary undertakings                | ii  | 442                          | 176                                           | 618                       |
| Other creditors, including taxation                    |     | 8                            | –                                             | 8                         |
|                                                        |     | 974                          | (348)                                         | 626                       |
| Net current liabilities/assets                         |     | (217)                        | 2,025                                         | 1,808                     |
| Total assets less current liabilities                  |     | 10,023                       | (3,923)                                       | 6,100                     |
| <b>Creditors: amounts due after more than one year</b> |     |                              |                                               |                           |
| Undated subordinated loan capital                      |     | 1,588                        | –                                             | 1,588                     |
|                                                        |     | 8,435                        | (3,923)                                       | 4,512                     |
| <b>Equity</b>                                          |     |                              |                                               |                           |
| Share Capital and share premium                        |     | 3,802                        | –                                             | 3,802                     |
| Reserves and retained earnings                         |     | 4,633                        | (3,923)                                       | 710                       |
| Total equity                                           |     | 8,435                        | (3,923)                                       | 4,512                     |

#### i Dividends

IFRS only permits the accrual of dividend liabilities when an obligation arises i.e. when declared. Under UK GAAP the final dividend was accrued in the period to which it related even if declared after year end. The effect is to reverse the final dividend accrual of \$532 million at 31 December 2004 and \$439 million at 1 January 2004.

#### ii Share options and own shares

IFRS 2 requires the fair valuation of all share based payments for those awards made after November 2002 and had not vested at 1 January 2004. It also requires obligations to be recorded in equity for equity-settled awards rather than as liabilities. All share based payments made in the Group are settled by reference to the Company's ordinary shares. Accordingly, the Company has recorded, on transition, an inter company receivable from subsidiaries and a corresponding credit to reserves.

All shares held under the Group's employee share schemes by the Company's employee share ownership trusts are deducted from the Company's equity under IFRS.

#### iii Revaluation of investments in subsidiaries

Under UK GAAP the Group held its investment in subsidiaries at their net asset value and recorded a revaluation reserve for adjustments. This has been reversed under IFRS, returning the investment in subsidiaries to cost, less impairment.

Loans to subsidiaries of a capital nature have been reclassified from investments in subsidiaries to amounts owed by subsidiaries.

#### Explanation of material adjustments to the cash flow statement

Under UK GAAP, the Company was not required to, and did not, prepare a cash flow statement. Deposits with a maturity of less than three months, including loans to subsidiaries which are repayable on demand, were excluded from cash under UK GAAP. These are reclassified as cash equivalents under IFRSs.

#### Reconciliation of equity at 1 January 2005 – Company

The Company has taken advantage of the transitional arrangements of IFRS 1 not to restate 2004 comparatives for IAS 32 and 39. On 1 January 2005 the Company's £100 million 7<sup>3</sup>/<sub>8</sub> and £100 million 8<sup>1</sup>/<sub>4</sub> per cent irredeemable £1 preference shares (with a carrying amount of \$375 million) were reclassified from equity to subordinated liabilities and other borrowed funds.

## 56. UK and Hong Kong Accounting Requirements

On 1 January 2005 the Group converted from UK GAAP to IFRS adopted for use by the EU. The consolidated financial statements of the Group for the year ended 31 December 2005, including 2004 comparatives, have been prepared accordingly, except that the 2004 comparatives exclude the effects of IAS 32 and 39. Where applicable for 2004, the principles of UK GAAP have been applied. On 1 January 2005 Hong Kong GAAP adopted an accounting standard on financial instruments similar to IAS 39. There would be no material differences between the accounting conventions except as set out below:

### Investments in Securities

#### 2004 IFRS excluding IAS 32/39

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis are classified as investment securities. Investment securities are stated at cost less any provision for impairment. Where dated investment securities are purchased at a premium or a discount, these premiums or discounts are amortised through the income statement. Securities other than investment securities are classified as dealing securities and are stated at market value.

#### 2004 Hong Kong GAAP

Under Hong Kong Statement of Standard Accounting Practice 24 – Accounting for Investments in Securities (SSAP24), investment securities classified as held-to-maturity securities are stated at amortised cost less any provision for diminution in value. Other securities, not intended to be held until maturity, are accounted for under the ‘alternative’ treatment. Under the alternative treatment securities are identified as either trading or non-trading. Trading securities are stated at fair value with changes in fair value recognised in the profit and loss account as they arise. Non-trading securities are stated at fair value with changes in fair value recognised in the revaluation reserve until disposal.

If the Group had prepared its 2004 comparative financial statements under Hong Kong SSAP24 there would have been a net charge to the profit and loss account for the year ended 31 December 2004 of \$9 million, an increase in the book amount of investment in securities of \$46 million as at 31 December 2004 and a credit to reserves of \$32 million at 31 December 2004.

## Supplementary Financial Information

### Average Balance Sheets and Yield

The following tables set out the average balances and yields for Standard Chartered's assets and liabilities for the years ended 31 December 2005 and 31 December 2004. For the purpose of the following table, average balances have generally been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently.

The Company does not believe that the information presented in this table would be significantly different had such balances been determined on a daily basis.

|                                                                     | 2005                                           |                                            |                           |               |
|---------------------------------------------------------------------|------------------------------------------------|--------------------------------------------|---------------------------|---------------|
|                                                                     | Average non interest earning balance \$million | Average interest earning balance \$million | Interest income \$million | Gross yield % |
| <b>Assets</b>                                                       |                                                |                                            |                           |               |
| Cash, balances at central banks and cheques in course of collection | 4,240                                          | 611                                        | 8                         | 1.3           |
| Treasury bills and other eligible bills                             | 41                                             | 10,474                                     | 469                       | 4.5           |
| Gross loans and advances to banks                                   | 560                                            | 25,510                                     | 852                       | 3.3           |
| Gross loans and advances to customers                               | 754                                            | 101,310                                    | 6,151                     | 6.1           |
| Provisions against loans and advances to banks and customers        | (1,700)                                        | –                                          | –                         | –             |
| Debt securities                                                     | 131                                            | 32,717                                     | 1,270                     | 3.9           |
| Equity shares                                                       | 499                                            |                                            |                           |               |
| Property, plant and equipment                                       | 1,517                                          |                                            |                           |               |
| Prepayments, accrued income and other assets                        | 20,474                                         |                                            |                           |               |
| <b>Total average assets</b>                                         | <b>26,516</b>                                  | <b>170,622</b>                             | <b>8,750</b>              | <b>5.1</b>    |

|                                                                     | 2004                                           |                                            |                           |               |
|---------------------------------------------------------------------|------------------------------------------------|--------------------------------------------|---------------------------|---------------|
|                                                                     | Average non interest earning balance \$million | Average interest earning balance \$million | Interest income \$million | Gross yield % |
| <b>Assets</b>                                                       |                                                |                                            |                           |               |
| Cash, balances at central banks and cheques in course of collection | 1,899                                          | 211                                        | 3                         | 1.4           |
| Treasury bills and other eligible bills                             | –                                              | 5,296                                      | 254                       | 4.8           |
| Gross loans and advances to banks                                   | 1,167                                          | 18,882                                     | 491                       | 2.6           |
| Gross loans and advances to customers                               | 484                                            | 67,088                                     | 3,563                     | 5.3           |
| Provisions against loans and advances to banks and customers        | (1,875)                                        | (579)                                      | –                         | –             |
| Debt securities                                                     | 266                                            | 31,508                                     | 1,001                     | 3.2           |
| Equity shares                                                       | 173                                            |                                            |                           |               |
| Property, plant and equipment                                       | 812                                            |                                            |                           |               |
| Prepayments, accrued income and other assets                        | 10,083                                         |                                            |                           |               |
| <b>Total average assets</b>                                         | <b>13,009</b>                                  | <b>122,406</b>                             | <b>5,312</b>              | <b>4.3</b>    |

## Average Balance Sheets and Yield continued

|                                                   | 2005                                           |                                            |                            |             |
|---------------------------------------------------|------------------------------------------------|--------------------------------------------|----------------------------|-------------|
|                                                   | Average non-interest bearing balance \$million | Average interest bearing balance \$million | Interest expense \$million | Rate paid % |
| <b>Liabilities</b>                                |                                                |                                            |                            |             |
| Non-interest bearing current and demand accounts  | 12,976                                         |                                            |                            |             |
| Interest bearing current and demand accounts      | –                                              | 32,460                                     | 516                        | 1.6         |
| Savings deposits                                  | 123                                            | 7,400                                      | 97                         | 1.3         |
| Time deposits                                     | 589                                            | 75,937                                     | 2,493                      | 3.3         |
| Other deposits                                    | 270                                            | 2,262                                      | 84                         | 3.7         |
| Debt securities in issue                          | (109)                                          | 22,504                                     | 703                        | 3.1         |
| Accruals, deferred income and other liabilities   | 23,881                                         | –                                          | –                          | –           |
| Subordinated liabilities:                         |                                                |                                            |                            |             |
| Undated loan capital                              | –                                              | 3,990                                      | 195                        | 4.9         |
| Dated loan capital                                | –                                              | 6,812                                      | 327                        | 4.8         |
| Minority interests                                | 227                                            |                                            |                            |             |
| Shareholders' funds                               | 9,956                                          |                                            |                            |             |
| Total average liabilities and shareholders' funds | 47,913                                         | 151,365                                    | 4,415                      | 2.9         |
| Net yield                                         |                                                |                                            |                            | 2.2         |
| Net interest margin                               |                                                |                                            |                            | 2.5         |

|                                                   | 2004                                           |                                            |                            |             |
|---------------------------------------------------|------------------------------------------------|--------------------------------------------|----------------------------|-------------|
|                                                   | Average non-interest bearing balance \$million | Average interest bearing balance \$million | Interest expense \$million | Rate paid % |
| <b>Liabilities</b>                                |                                                |                                            |                            |             |
| Non-interest bearing current and demand accounts  | 10,876                                         |                                            |                            |             |
| Interest bearing current and demand accounts      | –                                              | 26,149                                     | 191                        | 0.7         |
| Savings deposits                                  | 121                                            | 5,607                                      | 68                         | 1.2         |
| Time deposits                                     | 243                                            | 54,482                                     | 1,205                      | 2.2         |
| Other deposits                                    | 288                                            | 2,758                                      | 123                        | 4.5         |
| Debt securities in issue                          | –                                              | 11,286                                     | 179                        | 1.6         |
| Accruals, deferred income and other liabilities   | 9,361                                          | –                                          | –                          | –           |
| Subordinated liabilities:                         |                                                |                                            |                            |             |
| Undated loan capital                              | –                                              | 1,577                                      | 36                         | 2.3         |
| Dated loan capital                                | –                                              | 4,467                                      | 328                        | 7.4         |
| Minority interests                                | 8                                              |                                            |                            |             |
| Shareholders' funds                               | 8,257                                          |                                            |                            |             |
| Total average liabilities and shareholders' funds | 29,154                                         | 106,326                                    | 2,130                      | 2.0         |
| Net yield                                         |                                                |                                            |                            | 2.3         |
| Net interest margin                               |                                                |                                            |                            | 2.6         |

## Supplementary Financial Information continued

### Volume and Price Variances

The following table analyses the estimated change in Standard Chartered's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective interest rates for the periods presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to changes in volume.

|                                                 | 2005 versus 2004                        |                |                                               |
|-------------------------------------------------|-----------------------------------------|----------------|-----------------------------------------------|
|                                                 | Increase/(decrease) in interest due to: |                | Net increase/(decrease) in interest \$million |
|                                                 | Volume \$million                        | Rate \$million |                                               |
| Interest earning assets                         |                                         |                |                                               |
| Cash and unrestricted balances at central banks | 5                                       | –              | 5                                             |
| Treasury bills and other eligible bills         | 232                                     | (17)           | 215                                           |
| Loans and advances to banks                     | 221                                     | 140            | 361                                           |
| Loans and advances to customers                 | 2,078                                   | 510            | 2,588                                         |
| Debt securities and equity shares               | 47                                      | 222            | 269                                           |
| Total interest earning assets                   | 2,583                                   | 855            | 3,438                                         |
| Interest bearing liabilities                    |                                         |                |                                               |
| Dated subordinated loan capital                 | 113                                     | (113)          | –                                             |
| Undated subordinated loan capital               | 118                                     | 41             | 159                                           |
| Interest bearing current and demand accounts    | 100                                     | 225            | 325                                           |
| Savings deposits                                | 24                                      | 5              | 29                                            |
| Time deposits                                   | 704                                     | 583            | 1,287                                         |
| Other deposits                                  | (18)                                    | (21)           | (39)                                          |
| Debt securities in issue                        | 350                                     | 174            | 524                                           |
| Total interest bearing liabilities              | 1,391                                   | 894            | 2,285                                         |

|                                                 | 2004 versus 2003*                       |                |                                     |
|-------------------------------------------------|-----------------------------------------|----------------|-------------------------------------|
|                                                 | Increase/(decrease) in interest due to: |                | Net increase/(decrease) in interest |
|                                                 | Volume \$million                        | Rate \$million | \$million                           |
| Interest earning assets                         |                                         |                |                                     |
| Cash and unrestricted balances at central banks | –                                       | –              | –                                   |
| Treasury bills and other eligible bills         | (2)                                     | 34             | 32                                  |
| Loans and advances to banks                     | 50                                      | 65             | 115                                 |
| Loans and advances to customers                 | 340                                     | (131)          | 209                                 |
| Debt securities and equity shares               | 76                                      | 10             | 86                                  |
| Total interest earning assets                   | 464                                     | (22)           | 442                                 |
| Interest bearing liabilities                    |                                         |                |                                     |
| Dated subordinated loan capital                 | 72                                      | (10)           | 62                                  |
| Undated subordinated loan capital               | 1                                       | 7              | 8                                   |
| Interest bearing current and demand accounts    | 18                                      | (29)           | (11)                                |
| Savings deposits                                | 14                                      | (14)           | –                                   |
| Time deposits                                   | 72                                      | 115            | 187                                 |
| Other deposits                                  | 41                                      | (32)           | 9                                   |
| Debt securities in issue                        | 9                                       | (22)           | (13)                                |
| Total interest bearing liabilities              | 227                                     | 15             | 242                                 |

\* The 2004 versus 2003 analysis is per UK GAAP and is not restated under IFRSs as 2003 comparatives are not available.

## Five Year Summary

|                                                                          | 2005<br>\$million | *2004<br>\$million | **2003<br>\$million | **2002<br>\$million | **2001<br>\$million |
|--------------------------------------------------------------------------|-------------------|--------------------|---------------------|---------------------|---------------------|
| Operating profit before provisions                                       | 3,050             | 2,533              | 2,097               | 1,982               | 1,820               |
| Impairment losses on loans and advances and other credit risk provisions | (319)             | (214)              | (536)               | (712)               | (731)               |
| Amounts written off fixed asset investments                              | (50)              | (68)               | (11)                | (8)                 | –                   |
| Profit before taxation                                                   | 2,681             | 2,251              | 1,550               | 1,262               | 1,089               |
| Profit attributable to shareholders                                      | 1,946             | 1,578              | 1,024               | 844                 | 699                 |
| Loans and advances to banks                                              | 21,701            | 16,687             | 13,354              | 16,001              | 19,578              |
| Loans and advances to customers                                          | 111,791           | 72,019             | 59,744              | 57,009              | 53,005              |
| Total assets                                                             | 215,096           | 147,124            | 120,202             | 112,953             | 107,535             |
| Deposits by banks                                                        | 18,834            | 15,162             | 10,924              | 10,850              | 11,688              |
| Customer accounts                                                        | 119,931           | 85,093             | 73,767              | 71,626              | 67,855              |
| Shareholders' funds                                                      | 11,882            | 9,105              | 7,529               | 7,270               | 7,538               |
| Total capital resources <sup>1</sup>                                     | 22,682            | 16,837             | 14,110              | 12,974              | 12,959              |
| Information per ordinary share                                           |                   |                    |                     |                     |                     |
| Basic earnings per share                                                 | 148.5c            | 129.6c             | 82.0c               | 57.6c               | 55.9c               |
| Normalised earning per share <sup>2</sup>                                | 153.7c            | 124.6c             | 90.1c               | 74.9c               | 66.3c               |
| Dividends per share                                                      | 64.0c             | 57.5c              | 52.0c               | 47.0c               | 41.92c              |
| Net asset value per share                                                | 897.3c            | 719.0c             | 588.0c              | 569.8c              | 555.3c              |
| Ratios                                                                   |                   |                    |                     |                     |                     |
| Return on ordinary shareholders' equity-normalised basis <sup>2</sup>    | 18.0%             | 18.6%              | 15.7%               | 13.4%               | 12.0%               |
| Basic cost-income ratio                                                  | 55.5%             | 52.9%              | 55.8%               | 56.3%               | 58.9%               |
| Cost-income ratio – normalised basis <sup>2</sup>                        | 54.5%             | 54.0%              | 53.6%               | 53.6%               | 55.8%               |
| Capital ratios:                                                          |                   |                    |                     |                     |                     |
| Tier 1 capital                                                           | 7.7%              | 8.6%               | 8.6%                | 8.3%                | 9.0%                |
| Total capital                                                            | 13.6%             | 15.0%              | 14.5%               | 14.2%               | 16.2%               |

1 Shareholders' funds, minority interests and subordinated loan capital.

2 Results on a normalised basis reflect the Group's results, excluding profits and losses of a capital nature, charges for restructuring and profits and losses on repurchase of share capital.

\* IFRSs (excluding IAS 32 and 39).

\*\* UK GAAP.

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