



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 of 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 6.409% per annum until, but excluding, January 30, 2017 and, thereafter, unless redeemed, by reference to a rate of 1.51% 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 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 December 8, 2006. Dividends will be payable semi-annually in arrear on January 30 and July 30 of each year commencing July 30, 2007 until January 30, 2017 (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 (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 \$4,130.24 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 January 30, 2017 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. 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 27 of this Offering Circular.

Prospective investors should consider the factors described under the section entitled "Risk Factors" beginning on page 12 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 December 8, 2006.

Joint Bookrunners and Lead Managers

JPMORGAN

MERRILL LYNCH & CO.

STANDARD CHARTERED BANK

Co-managers

GOLDMAN, SACHS & CO.

MORGAN STANLEY

UBS INVESTMENT BANK

The date of this Offering Circular is December 1, 2006.

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 section entitled “Financial Review” from the Interim Report of the Group as of and for the six months ended June 30, 2006 and including comparative figures as of and for the six months ended June 30, 2005 (the “2006 Interim 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 section entitled “Financial Review” from the Annual Report and Accounts of the Group as of and for the year ended December 31, 2004 (the “2004 Annual Report”);
4. Annex D – Unaudited condensed consolidated interim financial statements of the Group as of and for the six months ended June 30, 2006 and including comparative figures as of and for the six months ended June 30, 2005;
5. Annex E – 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 international financial reporting standards as adopted by the European Union (“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; and
6. Annex F – The independent auditor’s report, audited consolidated financial statements of the Group as of and for the year ended December 31, 2004, prepared in accordance with generally accepted accounting principles in the United Kingdom (“UK GAAP”), and including comparative figures as of and for the years ended December 31, 2003, and unaudited supplemental financial information as of and for the years ended December 31, 2004 and 2003.

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 2004 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 2005 Annual Report, the Company's announcement on February 28, 2006 that Ho Kwon Ping would retire as a non-executive director of the Company with effect from May 4, 2006, the Company's announcement on July 5, 2006 that Lord Turner of Ecchinswell had been appointed as an independent non-executive director of the Company with effect from August 1, 2006, the Company's announcement on November 20, 2006 that Bryan Kaye Sanderson has retired as chairman of the Board of Directors of the Company and that Evan Mervyn Davies has been appointed as non-executive chairman of the Board of Directors of the Company and the Company's announcement on November 20, 2006 that responsibility for Risk and Special Assets Management will move from Peter Sands to Kai Nargolwala, an executive director of the Company. Such sections of the 2004 Annual Report and the 2005 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 2005 and 2004 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 2004 Annual Report or the 2005 Annual Report that is not specifically incorporated by reference above does not form part of this Offering Circular.

Copies of the 2004 Annual Report, the 2005 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 2004 Annual Report and the 2005 Annual Report specifically incorporated by reference in this Offering Circular and the sections of the 2006 Interim Report, 2005 Annual Report and 2004 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, 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 E to this Offering Circular, and the Group's unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2006 and including comparative figures as of and for the six months ended June 30, 2005, as set forth in Annex D to this Offering Circular, have been prepared in accordance with IFRS. Consolidated financial statements as of and for the year ended December 31, 2004, including the

notes thereto and including comparative figures as of and for the year ended December 31, 2003, as set forth in Annex F to this Offering Circular, were prepared in accordance with UK GAAP. IFRS and UK GAAP differ in various material respects from each other and 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 Group's audited consolidated financial statements as of and for the year ended December 31, 2005 in Annex E 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 the amounts reported in respect of 2005. IAS 32 and IAS 39 were adopted by the Group on January 1, 2005 and adjustments required to adopt IAS 32 and 39 are set out in note 55 to the Group's audited consolidated financial statements as of and for the year ended December 31, 2005 in Annex E to this Offering Circular.

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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”.

Issuer	Standard Chartered PLC.
Offering	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.
Maturity	The ADSs and the Preference Shares will be perpetual.
The ADSs and ADRs	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.
The Preference Shares	Non-cumulative callable dollar preference shares which entitle the holder thereof to the rights specified herein, as described under “Description of Preference Shares”. 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 as to certain powers of the Board in relation to payment of dividends and other distributions) and in priority to the Ordinary Shares. 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.
Use of Proceeds	The net proceeds from the sale of the ADSs, less the underwriting compensation and expenses payable by the Company, are estimated to be approximately \$743,337,500. The proceeds will be used by the Company for the general business purposes of the Group, which may include acquisitions.
Initial Offering Price and Paid Up Amount	\$100,000 per ADS.
Issue Date	December 8, 2006.
Dividends	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 6.409% per annum from, and including, the Issue Date to, but excluding, January 30, 2017 (the “Fixed Rate Dividend Period”) and thereafter (the “Floating Rate Dividend Period”), unless redeemed, at the rate of 1.51% per annum plus Three Month LIBOR (as defined herein).
Dividend Restriction	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 Preference Shares and certain intra-group exceptions which are more particularly described in “Description of the Preference Shares” on page 27) 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 January 30, 2017; 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 an extraordinary 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 July 30, 2007 until January 30, 2017 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 January 30, 2017 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.

Rights upon Liquidation.....

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”.

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.

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 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.

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 “Certain United States Federal Income Tax Consequences – Substitution”. **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 Rights.....

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.

Governing Law	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.
Listing	Applications have been 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.
Depository	JPMorgan Chase Bank, N.A.
Settlement	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 December 8, 2006.
Rule 144A ADSs representing Preference Shares	CUSIP No. 853254AA8 ISIN No. US853254AA86 Common Code
Regulation S ADSs representing Preference Shares ..	CUSIP No. G84228AT5 ISIN No. USG84228AT58 Common Code

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” from the 2006 Interim Report, 2005 Annual Report and the 2004 Annual Report, respectively, which are contained in Annexes A, B and C to this Offering Circular, 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 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.

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 unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2006 and 2005, and the Group's 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), 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, 2002, and 2001 prepared in accordance with UK GAAP. The unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2006 and 2005 are contained in Annex D to this Offering Circular and 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 E to this Offering Circular. The audited consolidated financial statements as of and for the year ended December 31, 2004 prepared in accordance with UK GAAP are contained in Annex F 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, 2002 and 2001 is not directly comparable to the IFRS financial information presented as of and for the year ended December 31, 2005 (and the restated comparative figures as of and for the year ended December 31, 2004). In addition, UK GAAP and IFRS differ in certain respects from US GAAP. See note 55 to the Group's audited consolidated financial statements as of and for the year ended December 31, 2005 in Annex E to this Offering Circular for a description of certain differences between UK GAAP and IFRS. 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 six months ended June 30,	
	2006 (\$million)	2005 (\$million)
	IFRS (unaudited)	
Operating profit before impairment losses and taxation	1,887	1,528
Impairment losses on loans and advances and other credit risk provisions	(349)	(194)
Other impairment	(8)	(1)
Profit before taxation.....	1,527	1,333
Profit attributable to parent company's shareholders	1,103	971
Loans and advances to banks	16,750	19,874
Loans and advances to customers	119,550	106,510
Total assets	238,148	204,643
Deposits by banks.....	21,994	20,958
Customer accounts.....	130,176	107,056
Total parent company shareholders' equity	13,350	11,223
Total capital resources ¹	24,655	21,071
Information per ordinary share²		
Basic earnings per share (cents).....	82.8¢	74.7¢
Normalized earnings per share (cents) ³	84.1¢	75.2¢
Dividends per share (cents) ⁴	20.83¢	18.94¢
Net asset value per share (cents)	983.5¢	841.0¢
Ratios		
Return on ordinary shareholders' equity-normalized basis ³	17.9%	18.3%
Cost-income ratio – normalized basis (annualized) ³	53.6%	52.6%
Capital ratios:		
Tier 1 capital	8.4%	7.3%
Total capital	14.2%	12.9%

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 period.

3 Results on a normalized 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. Please see note 7 to the Group's unaudited interim consolidated financial statements as of and for the six months ended June 30, 2006 in Annex D for a reconciliation of normalized earnings per share to basic earnings per share.

4 Figure for each period represents interim dividend declared.

As of and for the year ended
December 31,

	2005 (\$million)	*2004 (\$million)	2004 (\$million)	2003 (\$million)	2002 (\$million)	2001 (\$million)
	IFRS		U.K. GAAP			
Operating profit before impairment losses and taxation	3,050	2,533	2,371	2,097	1,962	1,820
Impairment losses on loans and advances and other credit risk provisions	(319)	(214)	(214)	(536)	(712)	(731)
Other impairment	(50)	(68)	(1)	(11)	(8)	—
Profit before taxation	2,681	2,251	2,156	1,550	1,262	1,089
Profit attributable to parent company's shareholders	1,946	1,578	1,479	1,024	844	699
Loans and advances to banks	21,701	16,687	18,922	13,354	16,001	19,578
Loans and advances to customers	111,791	72,019	71,596	59,744	57,009	53,005
Total assets	215,096	147,124	141,688	120,202	112,953	107,535
Deposits by banks	18,834	15,162	15,813	10,924	10,850	11,688
Customer accounts	119,931	85,093	84,572	73,767	71,626	67,855
Total parent company shareholders' equity	11,882	9,105	8,435	7,529	7,270	7,538
Total capital resources ¹	22,682	16,837	16,123	14,110	12,974	12,959
Information per ordinary share²						
Basic earnings per share (cents)	148.5¢	129.6¢	121.2¢	82.0¢	57.6¢	55.9¢
Normalized earnings per share (cents) ³	153.7¢	124.6¢	125.9¢	90.1¢	74.9¢	66.3¢
Dividends per share (cents)	64.0¢	57.5¢	57.5¢	52.0¢	47.0¢	41.92¢
Net asset value per share (cents)	897.3¢	719.0¢	658.3¢	588.0¢	569.8¢	555.3¢
Ratios						
Return on ordinary shareholders' equity-normalized basis ³	18.0%	18.6%	20.1%	15.7%	13.4%	12.0%
Cost-income ratio – normalized basis ³	54.5%	54.0%	53.5%	53.6%	53.6%	55.8%
Capital ratios:						
Tier 1 capital	7.7%	8.6%	8.6%	8.6%	8.3%	9.0%
Total capital	13.6%	15.0%	15.0%	14.5%	14.2%	16.2%

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, 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, 2005 in Annex E 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 June 30, 2006, prepared in accordance with IFRS, and as adjusted to reflect the issuance of the Preference Shares.

	As at June 30, 2006 (\$million)	As adjusted (\$million)
Authorized share capital		
Ordinary shares of \$0.50 each.....	1,316	1,316
Non-cumulative irredeemable preference shares of £1.00 each.....	924	924
Non-cumulative redeemable preference shares of \$5.00 each ¹	1,500	1,500
Non-cumulative preference shares of €1,000 each	1,278	1,278
Total Authorized share capital	5,018	5,018
Shareholders' equity		
Allotted, called-up and fully paid share capital		
Ordinary shares.....	665	665
Preference shares ¹	2	40
Share premium ¹	5,053	5,796
Reserves and retained earnings	7,630	7,630
Total Shareholders' equity	13,350	14,131
Subordinated loan capital		
\$400 million Primary Capital Floating Rate Notes ²	400	400
\$300 million Primary Capital Floating Rate Notes (Series 2) ²	300	300
\$400 million Primary Capital Floating Rate Notes (Series 3) ²	400	400
\$200 million Primary Capital Floating Rate Notes (Series 4) ²	200	200
£150 million Primary Capital Floating Rate Notes ²	278	278
£675 million 5.375 per cent. Undated Callable Step-Up Subordinated Notes	1,182	1,182
£30 million Floating Rate Notes due 2009 ²	55	55
£300 million 6.75 per cent. Notes due 2009	501	501
€600 million 5.375 per cent. Notes due 2009	693	693
\$700 million 8.0 per cent. Subordinated Notes due 2031	675	675
€500 million 8.16 per cent. non-cumulative Trust Preferred Securities (callable 2010) ⁷	659	659
£600 million 8.103 per cent. Step-Up Callable Perpetual Trust Preferred Securities (callable 2016) ⁸	1,285	1,285
£200 million 7.75 per cent. Step-Up Notes (callable 2022).....	434	434
\$350 million 4.375 per cent. Notes 2014 (Floating rate from 2009)	350	350
HKD (Hong Kong Dollars) 500 million 3.5 per cent. Notes 2014 (Floating rate from 2009)	56	56
HKD 670 million Floating Rate Notes 2014.....	73	73
€750 million 3.625 per cent. (Floating rate from 2012) Subordinated rates 2017	916	916
\$500 million Floating Rate Notes due 2015 ²	498	498
\$500 million Floating Rate Notes due 2016 ²	498	498
\$375 million Subordinated Debt due 2013.....	183	183
\$200 million Subordinated Debt due 2013.....	109	109
KRW (South Korean Won) 205 billion Subordinated Debt due 2009	200	200
KRW 160 billion Subordinated Debt due 2008.....	154	154
KRW 136 billion Subordinated Debt due 2007.....	133	133
KRW 104 billion Subordinated Debt due 2007.....	101	101
KRW 40 billion Subordinated Debt due 2006.....	40	40
KRW 30 billion Subordinated Debt due 2011.....	29	29
KRW 27 billion Subordinated Debt due 2008.....	27	27
BWP (Botswana Pula) 75 million Floating Rate Notes due 2012.....	12	12
BWP 50 million Fixed and Floating Rate Subordinated Notes due 2015	8	8
TZS (Tanzanian Schilling) 8 billion Subordinated Notes due 2015	6	6
KRW 3 billion Subordinated Debt due 2011	3	3
Total Subordinated loan capital	10,458	10,458
Other borrowings		
£96 million 7.375% irredeemable preference shares	170	170
£99 million 8.25% irredeemable preference shares	177	177
Total Other borrowings	347	347
Total Capitalization and Indebtedness	24,155	24,936

Notes

- (1) On October 2, 2006 the non-cumulative redeemable preference shares of \$5.00 each were redeemed in whole.
- (2) These notes bear interest rates fixed periodically based on London interbank rates.
- (3) 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.
- (4) Liabilities denominated in foreign currencies are translated into US dollars at market exchange rates prevailing at June 30, 2006. The exchange rates used were £1.00 = \$1.848; €1.00 = \$1.278; \$1.00 = HKD 7.7686; \$1.00 = BWP 6.0196; \$1.00 = KRW 948.8571; \$1.00 = TZS 1,255.0.
- (5) Contingent liabilities amounted to \$26,182 million as at June 30, 2006, of which \$13,561 million related to guarantees and irrevocable letters of credit.
- (6) The total amount of all other borrowings and indebtedness as at June 30, 2006 was \$177 billion, comprising deposits by banks \$22 billion, customer accounts \$130 billion and other debt securities in issue such as certificates of deposits was \$25 billion.
- (7) 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.
- (8) These securities are redeemable at the option of Standard Chartered Bank on or after May 11, 2016 on any interest payment date.
- (9) On September 5, 2006, Standard Chartered Bank acquired majority control of Union Bank Limited and, as a result, the Group’s subordinated debt increased by \$41 million.
- (10) On November 7, 2006, Standard Chartered Bank completed the acquisition of 95.4% of Hsinchu International Bank and, as a result, the Group’s subordinated debt increased by \$556 million. To fund the acquisition, on October 4, 2006 Standard Chartered issued 48,500,000 ordinary shares of \$0.50 each, at a placing price of 1375 pence per share. The gross proceeds received from the issue were £666,875,000 (approximately \$1,205 million).
- (11) On November 29, 2006, Standard Chartered Bank issued €675,000,000 Floating Rate Step Up Dated Subordinated Notes due 2018 and \$100,000,000 Floating Rate Step Up Dated Subordinated Notes due 2018 under the Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited and Standard Chartered First Bank Korea Limited \$15,000,000,000 Debt Issuance Programme.

Except as disclosed in this Offering Circular, 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 June 30, 2006.

Use of Proceeds

The net proceeds from the sale of the ADSs, less the underwriting compensation and expenses payable by the Company, are estimated to be approximately \$743,337,500. 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 1989 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 (with reference number ZC 18). 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, and non-cumulative irredeemable preference shares, all of which are owned by Standard Chartered Capital Investments LLC, a company incorporated in the United States. Standard Chartered Bank's principal office and its principal place of business in the United Kingdom is at 1 Aldermanbury Square, London EC2V 7SB.

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 56 countries and territories and almost 55,000 employees.

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

Business Divisions

Consumer Banking

The Consumer Banking business provides banking services, deposit taking services, credit cards, personal loans, mortgages, auto finance and wealth management services. Its major markets include Hong Kong, Republic of Korea, Singapore, Malaysia, India, Thailand, Indonesia, Taiwan and the United Arab Emirates. Principal customers of the Consumer Banking business are individuals in Asia, Africa and the Middle East. In addition to serving individuals, the Consumer Banking business also offers a range of deposit taking, trade, lending and other banking services to small and medium sized enterprises in its key markets. The Group's branches are a key part of the distribution network for its Consumer Banking business.

The Group also uses direct selling to distribute certain products and offers on-line banking in most of its key markets.

Wholesale Banking

The Wholesale Banking business provides capital markets, structured finance, asset backed securitization, foreign exchange, derivatives and money market products, corporate advisory services, project and export financing, structured trade services, specialized lending, cash management and securities services as well as more traditional lending and trade finance services, to a wide range of corporate and institutional clients. These services are provided through the Group's international network in Asia, Africa and the Middle East complemented by sales origination platforms in the United Kingdom and United States.

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, 2005, Hong Kong-based activities contributed approximately \$1,484 million to the Group's total operating income and, for the six months ended June 30, 2006, Hong Kong-based activities contributed \$794 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 over 4,000 employees based in Hong Kong as at December 31, 2005.

Singapore, Malaysia and Other Asia Pacific Regions

For the year ended December 31, 2005, Singapore, Malaysia and other Asia Pacific business contributed approximately \$2 billion to the Group's operating income. For the six months ended June 30, 2006, these same geographies contributed just over \$1 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, 2005, the Group had 19 branches and corporate offices and just over 2,800 employees in Singapore and 32 branches and corporate offices and almost 3,000 employees in Malaysia. The Group continues to expand in China with 10 branches, 4 sub-branches and 4 representative offices at December 31, 2005. As at December 31, 2005, the Group had 407 branches and corporate offices and over 7,300 employees in other countries in the Asia Pacific region including 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 \$859 million and profit before tax of \$227 million to the Group for the period from April 15, 2005 to December 31, 2005.

As at December 31, 2005, the Group had 407 branches and corporate offices and almost 5,800 employees in South Korea.

India

In India, the Group operates the country's largest international bank in terms of branches and had 102 branches and corporate offices and over 10,000 employees as at December 31, 2005.

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 \$593 million for the year ended December 31, 2005 and \$380 million for the six months ended June 30, 2006.

Middle East and other South Asia

For the year ended December 31, 2005, Middle East and other South Asia contributed \$812 million to the Group's operating income. For the six months ended June 30, 2006, Middle East and other South Asia contributed \$482 million to the Group's operating income.

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

As at December 31, 2005, the Group had 115 branches and over 4,000 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, 2005, operations in Africa contributed \$553 million to the Group's operating income. For the six months ended June 30, 2006, Africa contributed \$315 million to the Group's operating income. The Group had 131 branches and offices and over 4,800 employees based in Africa as at December 31, 2005.

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, 2005, businesses in the Americas and the United Kingdom contributed approximately \$556 million to the Group's operating income. For the six months ended June 30, 2006, a total of \$347 million operating income had been earned.

As at December 31, 2005, the Group had 16 branches and corporate offices and over 1,800 employees in the Americas and the United Kingdom.

Subsidiaries

As at November 27, 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 Holdings (Africa) B.V., Standard Chartered Receivables (UK) Limited, Standard Chartered Financial Investments Limited, Standard Chartered Debt Trading Limited, Standard Chartered Bank (Pakistan) Limited and Hsinchu International Bank. All the above are directly or indirectly wholly owned subsidiaries of Standard Chartered, except Standard Chartered Bank (Thai) Public Company Limited, which is 99.98% owned by Standard Chartered Bank, and Hsinchu International Bank, which is 95.4% owned by Standard Chartered Bank.

Recent Developments

On November 7, 2006, Standard Chartered Bank completed the acquisition of Hsinchu International Bank, the seventh largest private sector bank in Taiwan by loans and deposits as at June 30, 2006, for \$1.2 billion (£0.65 billion) in line with its strategy to make selective acquisitions to complement its business plan based on organic growth.

On November 20, 2006, Standard Chartered announced the appointment of Evan Mervyn Davies as non-executive chairman of Board of Directors of the Company, the appointment of Peter Sands as chief executive officer of the Group and the resignation of Bryan Kaye Sanderson as chairman of the Board of Directors of the Company.

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 November 22, 2006 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 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 Preference Shares under their terms of issue, in which case the Existing 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 January 30, 2017 (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 \$4,130.24 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 6.409% 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, January 30, 2017 (the “Fixed Rate Dividend Period”). During the Fixed Rate Dividend Period, dividends will be payable semi-annually in equal installments in arrear on the Semi-Annual Dividend Payment Dates, commencing on July 30, 2007 and ending on January 30, 2017, 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 \$3,204.50 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 \$4,130.24; and
- (b) at the rate per annum equal to 1.51% plus Three Month LIBOR on the paid up amount of \$100,000 per Preference Share in respect of the Dividend Periods from, and including, April 30, 2017 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 ratably 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 January 30, 2017, 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 favorable 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 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. 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 ratably 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 an extraordinary 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 as such act 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 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 January 30, 2017, 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 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 7⅜% 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 CA of The Interim Prudential Sourcebook for Banks 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 (the “Deposit Agreement”) to be dated as of December 8, 2006, 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”). 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 Depository 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 Depository 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, 2005, 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 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 whose income 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 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 U.S. 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 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 “Finance (No. 2) Act 2005” 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 “Finance (No.2) Act 2005” 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 subheading “Finance (No. 2) Act 2005” 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.

Finance (No. 2) Act 2005

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 and does not enter into a contract of insurance or indemnity, or an associated transaction of a derivative or hedging nature, in relation to its Preference Shares or ADSs”.

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 December 1, 2006, 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 ADSs</i>
J.P. Morgan Securities Inc.....	2,925
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	2,925
Standard Chartered Bank.....	1,425
Goldman, Sachs & Co.....	75
Morgan Stanley & Co. Incorporated.....	75
UBS Securities LLC.....	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 net 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.

Independent Auditor

The financial statements of the Group as of and for the years ended December 31, 2005 and December 31, 2004 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, 2005 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“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, 2005 and total parent company shareholders’ equity as of December 31, 2005 as shown under IFRS in the consolidated financial statements as of and for the year ended December 31, 2005. This section does not provide a comprehensive analysis of such differences. 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.

Using the exemptions within IFRS 1 ‘First-time adoption of International Financial Standards’ (“IFRS 1”), IAS 32 ‘Financial Instruments: Disclosure and Presentation’ and IAS 39 ‘Financial Instruments: Recognition and Measurement’ (“IAS 39”) only became effective from January 1, 2005. Where the implementation of these standards resulted in a change in accounting policy from January 1, 2005, the 2004 comparatives presented in the statutory consolidated financial statements do not reflect the provisions of these standards but instead reflect the application of the Company’s relevant previous UK GAAP accounting policies. The descriptions of certain differences between IFRS and US GAAP that follow consider only IFRS as applied to the financial information for 2005.

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 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”) permits pension assets to be measured at fair value or a calculated value that recognizes changes in a systematic and rational manner over not more than five years.

- When the value of benefits accrued based on employee service up to the balance sheet date (the accumulated benefit obligation, which excludes the effect of future salary increases) exceeds the value of plan assets, an additional minimum pension liability must be recognized to the extent that the excess is greater than any accrual already established for unfunded pension costs. This additional minimum pension liability is recognized directly in 'Other comprehensive income.'
- SFAS 87 does not permit recognition of all actuarial gains and losses in a statement other than the primary income statement.

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 IFRS 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 classified as available for sale or held-to-maturity. 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 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 rate 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 FAS 150 ‘Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity’ 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 is 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.

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

- US GAAP permits different methods of accounting for share-based payments:
 - (1) *The intrinsic value method.* Under APB Opinion No. 25 ‘Accounting for Stock Issued to Employees’, a cost is generally 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.
 - (2) *The fair value methods specified in either SFAS No. 123 ‘Accounting for Stock Based Compensation’ (“SFAS 123”) or SFAS No. 123 (revised 2004) ‘Share-Based Payment’ (“SFAS 123(R))”.* Under these methods, the cost of share-based payments is based on the estimated fair values of awards and is generally recognized in the income statement 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 remeasured at each reporting date until the date of settlement. The requirements of SFAS 123, 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 modifications of awards; and accounting for the income tax effects of equity awards.

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 \$6,662,500.
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 June 12, 2006 and of a duly authorized committee of the Board passed on November 22, 2006.
4. Other than as disclosed in notes 9 and 10 to the "Capitalization and Indebtedness" table on page 22 and the discussion of the acquisition of Hsinchu International Bank in the section entitled "Recent Developments" on page 26, there has been no significant change in the financial or trading position of the Group since June 30, 2006. There has been no material adverse change in the prospects of the Group since December 31, 2005.
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, 2005 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 December 8, 2006. The CUSIP number for the Rule 144A ADSs representing the Preference Shares is 853254AA8. The ISIN number for the Rule 144A ADSs representing the Preference Shares is US853254AA86. The Common Code for the Rule 144A ADSs representing the Preference Shares is . The CUSIP number for the Regulation S ADSs representing the Preference Shares is G84228AT5. The ISIN number for the Regulation S ADSs representing the Preference Shares is USG84228AT58. The Common Code for the Regulation S ADSs representing the Preference Shares is . 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 December 1, 2006;
- (c) the Deposit Agreement dated December 8, 2006;
- (d) a copy of this Offering Circular;
- (e) a copy of the resolution of a committee of the Board of Directors passed on November 22, 2006 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, 2004 and 2005 and the unaudited consolidated interim financial statements of Standard Chartered and the Group as of and for the six months ended June 30, 2006 and each financial year and six monthly intervals thereafter in respect of which interim or audited financial statements have been prepared.

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Annex A – 2006 Interim Financial Review

STANDARD CHARTERED PLC - FINANCIAL REVIEW

GROUP SUMMARY

The Group has delivered another set of strong results in the six months ended 30 June 2006. Operating income increased 27 per cent, or \$876 million, to \$4,112 million and operating profit before tax of \$1,527 million was up 15 per cent over the same period in 2005. Normalised earnings per share increased by 12 per cent to 84.1 cents. (Refer to note 7 on page 41).

The Group has owned SCFB since 15 April 2005. 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 the six months to 30 June 2006 with the equivalent period in 2005. The 2005 results for "Korea" reflect a full six months of the Standard Chartered Bank branch together with the post acquisition results of SCFB. To facilitate effective comparison, the table below and most of the subsequent discussion, segments the results of the Korea business from the results of the rest of the Group.

	6 months ended 30.06.06			6 months ended 30.06.05*			6 months ended 31.12.05*		
	Korea \$million	Ex Korea \$million	As reported \$million	Korea \$million	Ex Korea \$million	As reported \$million	Korea \$million	Ex Korea \$million	As reported \$million
Net interest income	548	1,962	2,510	235	1,737	1,972	590	1,773	2,363
Fees and commissions income, net	68	826	894	29	698	727	16	752	768
Net trading income	51	480	531	34	375	409	29	331	360
Other operating income	67	110	177	11	117	128	13	121	134
	186	1,416	1,602	74	1,190	1,264	58	1,204	1,262
Operating income	734	3,378	4,112	309	2,927	3,236	648	2,977	3,625
Operating expenses	(460)	(1,765)	(2,225)	(167)	(1,541)	(1,708)	(465)	(1,638)	(2,103)
Operating profit before impairment losses	274	1,613	1,887	142	1,386	1,528	183	1,339	1,522
Impairment losses on loans and advances	(40)	(309)	(349)	(34)	(160)	(194)	(27)	(98)	(125)
Other impairment	–	(8)	(8)	–	(1)	(1)	–	(49)	(49)
Loss from associate	–	(3)	(3)	–	–	–	–	–	–
Operating profit before taxation	234	1,293	1,527	108	1,225	1,333	156	1,192	1,348

* Restated. See note 29 on page 57.

Operating Income and Profit Excluding Korea

Operating income grew 15 per cent, or \$451 million, to \$3,378 million over the equivalent prior year period, Consumer Banking and Wholesale Banking each delivering double-digit income growth. The growth in the first half reflected the effects of prior year investment with good growth being achieved across an increasingly broad range of geographies, products and customer segments.

Net interest income grew \$225 million, or 13 per cent, to \$1,962 million. Net interest margin was 2.5 per cent, down from 2.6 per cent in the first half of last year reflecting continued pressure on asset margins, particularly mortgages.

Fees and commissions increased by \$128 million, or 18 per cent, to \$826 million. This increase was driven mainly by higher volumes in wealth management, cash management and global markets products across most markets.

Net trading income grew by \$105 million, or 28 per cent, to \$480 million driven in part due to higher volumes of foreign exchange dealing in Wholesale Banking. Other operating income decreased \$7 million, or six per cent, to \$110 million.

Operating expenses grew \$224 million, or 15 per cent, to \$1,765 million, with the normalised cost income ratio falling to 52.2 per cent compared to 52.6 per cent in the first half last year. Expense growth was broadly in line with income growth with technology production and operations expenses held flat. This allowed both Consumer Banking

and Wholesale Banking businesses to continue to invest in new products, infrastructure and sales capability to support double-digit operating income growth.

Operating profit before impairment increased \$227 million, or 16 per cent, to \$1,613 million.

Impairment losses on loans and advances increased by \$149 million, or 93 per cent, to \$309 million. This was primarily due to the increase in the impairment charge for the Consumer Banking unsecured portfolio in Taiwan. Wholesale Banking continued to benefit from a benign credit environment in most markets.

Operating profit before taxation grew \$68 million, or six per cent, to \$1,293 million.

Korea Operating Income and Profit

The results for Korea for the first half of 2005 only include SCFB for less than half of that period. It is therefore more useful to compare the current period's results for Korea against the second half of 2005. Operating income grew by \$86 million, or 13 per cent, to \$734 million driven by strong income growth in both the Consumer and Wholesale businesses. Operating expenses decreased slightly by one per cent to \$460 million. Operating profit before impairment consequently increased by 50 per cent, or \$91 million. Loan impairment increased by 48 per cent, or \$13 million, with most of the increment in Consumer Banking. Operating profit increased by 50 per cent, or \$78 million.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

CONSUMER BANKING

To provide meaningful comparison Consumer Banking excluding Korea is compared against the first half of 2005 whilst Consumer Banking in Korea is shown against the second half of 2005.

Consumer Banking Excluding Korea

Operating income was up \$151 million, or 10 per cent, to \$1,665 million, with growth spread across a broad range of markets. Hong Kong and Singapore achieved growth of around four per cent and these two markets now account for 41 per cent of total income compared to 43 per cent in the equivalent period last year. Outside these two markets income grew 14 per cent, with particularly strong growth in Middle East and Other South Asia (MESA) which rose by 34 per cent.

Income growth was driven primarily by wealth management products and the Small and Medium Enterprise (SME) customer segment. Income from deposits grew significantly reflecting both increased volumes of customer deposits and improved margins. Assets remained broadly flat, with a decline in mortgages offsetting increases in SME and unsecured lending.

Expenses grew \$67 million or nine per cent to \$832 million. This increase included expenditure to support the growth of China and Japan, and in our private banking and consumer finance activities. Investment was also made to enhance product distribution capabilities. The impact on expenses of increased product volumes has been largely offset by gains from operational efficiencies.

Operating profit before impairment grew \$84 million or 11 per cent.

Impairment losses more than doubled, by \$213 million to \$372 million. The majority of this rise came from the unsecured portfolio in Taiwan, where the banking industry as a whole has been adversely affected by a sharp increase in customer default rates. The loan impairment charge in Taiwan increased to \$203 million in the first half of 2006 from \$75 million in the second half of 2005 (and \$23 million in the first half of 2005). These provisions include a discount on the original interest rate on the restructured portfolio of \$28 million. Recent indications are that conditions are continuing to improve and it is expected that there will be a sharp reduction in the loan impairment charge in Taiwan in the second half of the year. However, given recent and prospective regulatory changes, there remains considerable uncertainty about the evolution of the consumer credit market. Impairment losses outside Taiwan increased by \$33 million or 24 per cent, reflecting changes in the mix and maturity of the portfolio, plus some deterioration in credit quality in Thailand and Indonesia due to the economic environment.

Consumer Banking operating profit fell \$129 million, or 22 per cent, to \$461 million compared to the first half of 2005. This fall was primarily due to the loan impairment charges taken in Taiwan which more than offset the increase in operating profit before impairment.

Hong Kong delivered an increase in operating profit of nine per cent to \$280 million. Income growth was four per cent whilst expenses rose by one per cent. Operating profit before impairment profit grew six per cent. New products such as the Marathon Savings Account, and increased

marketing activity, together with better margins, drove double-digit operating income growth in wealth management and deposit balances. The SME segment also recorded double-digit income growth with good prospects for the future. The loan impairment charge decreased 21 per cent or \$6 million compared to the prior period.

In Singapore, income was up four per cent on the first half of 2005, driven by strong growth in wealth management products and the SME segment. There was continued product innovation through the period including, for example, the launch of foreign currency and SME saver accounts. In an intensely competitive market, mortgage margins remained under pressure. Expenses grew six per cent to \$66 million driven by investment in new products. Loan impairment decreased six per cent reflecting a broadly benign consumer credit environment. Operating profit increased five per cent to \$88 million. Assets were down seven per cent with increases in SME lending offset by a decline in mortgage assets.

In Malaysia income increased 11 per cent to \$112 million. Strong income growth in wealth management and the SME segment, underpinned by the success of new product launches, including Islamic SME products, more than offset a lower performance in mortgages, where income fell due to margin compression. Operating expenses increased \$3 million or seven per cent to \$49 million. Loan impairment reduced six per cent reflecting the benefit of provision releases. Operating profit increased 24 per cent to \$47 million.

In Other Asia Pacific, income growth of nine per cent was driven by strong balance sheet growth in all products. In China income more than doubled with good growth in the SME segment. Indonesia and Thailand also delivered double-digit income growth. These performances were offset by subdued income performance in Taiwan. Operating expenses increased by 15 per cent reflecting investment for future growth. Loan impairment increased due primarily to Taiwan, but also reflecting slightly more difficult credit conditions in Thailand and Indonesia.

India's income increased 10 per cent over the equivalent period driven by growth in wealth management products and the SME segment. This was partially offset by a decline in mortgage income. Investment in new product and sales capabilities was achieved within expense growth of five per cent due to redeployment of resources and other efficiency initiatives.

Operating income in MESA increased by 34 per cent to \$238 million. This strong performance was led by wealth management, credit cards and the SME segment. Investments targeted at infrastructure and distribution channels to sustain good income growth increased expenses by 38 per cent to \$116 million. Loan impairment increased 14 per cent to \$16 million. Assets grew nine per cent.

In Africa, operating profit grew 19 per cent to \$25 million as a result of income growth of three per cent and a reduction in expenses of six per cent; wealth management income grew rapidly driven by new product launches and a new sales model, whilst expenses were reduced as a result of productivity gains and disciplined cost control. Loan impairment increased to \$9 million. Assets grew by 30 per cent driven by unsecured lending.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

CONSUMER BANKING continued

The Americas, UK and Group Head Office saw an increase in operating profit from \$5 million to \$11 million, driven primarily by higher income from the Jersey business.

Korea Consumer Banking

Consumer Banking's results in Korea are compared to the second half of 2005. On this basis operating income increased nine per cent to \$530 million driven by wealth management products and the SME segment. Product innovation in wealth management attracted new accounts

and fresh funds, with the new e-Click product attracting over 250,000 new accounts.

There was a decline in mortgage margins due to a combination of the interest rate environment and competitive activity. Expenses were held broadly flat compared to the previous period. Operating profit before impairment increased by \$46 million or 43 per cent. Loan impairment increased \$11 million to \$33 million. Assets have grown five per cent driven by mortgages and unsecured lending.

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

6 months ended 30.06.06											
Asia Pacific											
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Consumer Banking Total Ex Korea \$million	Consumer Banking Total \$million
Operating Income	505	170	112	530	317	158	238	128	37	1,665	2,195
Expenses	(203)	(66)	(49)	(378)	(186)	(90)	(116)	(94)	(28)	(832)	(1,210)
Loan impairment	(22)	(16)	(16)	(33)	(275)	(20)	(16)	(9)	2	(372)	(405)
Operating profit	280	88	47	119	(144)	48	106	25	11	461	580

6 months ended 30.06.05											
Asia Pacific											
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Consumer Banking Total Ex Korea \$million	Consumer Banking Total \$million
Operating Income	485	163	101	209	292	143	177	124	29	1,514	1,723
Expenses	(201)	(62)	(46)	(123)	(162)	(86)	(84)	(100)	(24)	(765)	(888)
Loan impairment	(28)	(17)	(17)	(34)	(53)	(27)	(14)	(3)	–	(159)	(193)
Operating profit	256	84	38	52	77	30	79	21	5	590	642

6 months ended 31.12.05											
Asia Pacific											
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Consumer Banking Total Ex Korea \$million	Consumer Banking Total \$million
Operating Income*	491	161	109	488	319	143	202	134	32	1,591	2,079
Expenses	(214)	(64)	(49)	(382)	(180)	(93)	(98)	(105)	(28)	(831)	(1,213)
Loan impairment	(6)	(13)	(20)	(22)	(113)	(29)	(19)	(10)	–	(210)	(232)
Other impairment	–	–	–	–	–	–	–	(3)	–	(3)	(3)
Operating profit	271	84	40	84	26	21	85	16	4	547	631

* As more fully explained in note 2 on page 33 and note 29 on page 57, internal income has been restated. The impact is to reduce Consumer Banking total operating income by \$5 million in the second half of 2005 with a corresponding increase in Wholesale Banking.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

CONSUMER BANKING continued

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

	6 months ended 30.06.06			6 months ended 30.06.05*			6 months ended 31.12.05*		
	Total	Korea	Ex Korea	Total	Korea	Ex Korea	Total	Korea	Ex Korea
Operating Income by Product	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Cards and Loans	824	180	644	706	88	618	822	186	636
Wealth Management and Deposits	926	179	747	634	53	581	808	159	649
Mortgages and Auto Finance	388	157	231	350	66	284	408	141	267
Other	57	14	43	33	2	31	41	2	39
	2,195	530	1,665	1,723	209	1,514	2,079	488	1,591

* Restated. See note 2 on page 33.

Product Performance Excluding Korea

Credit cards and personal loans delivered a \$26 million, or four per cent, increase in operating income to \$644 million. In Hong Kong new credit card launches, including co-branded, helped increase customer balances over the equivalent period last year. Good asset growth was also seen in Pakistan, India and Thailand, all of whom recorded double-digit growth in unsecured outstandings.

In wealth management, deposit growth and improved margins have been the primary drivers of a \$166 million, or 29 per cent, growth in income to \$747 million. This improvement was seen in most countries, with strong contributors being Hong Kong, Singapore, India and the MESA region. Deposit product innovation, such as an Islamic savings account in MESA, has helped attract new customers and funds in a number of markets.

Mortgage margins continued to be under pressure in a number of markets, driven by the rising interest rate environment and competitor pricing. Mortgage outstandings fell \$1,412 million or six per cent to \$20,799 million. These effects served to reduce mortgage and auto finance income by \$53 million or 19 per cent to \$231 million. In several markets, such as Hong Kong and Singapore, product innovation and repricing actions have helped mitigate the effects of margin compression, although the near term outlook continues to be challenging.

Korea Product Performance

Comparisons are against the second half of 2005.

Wealth management and deposits income grew 13 per cent or \$20 million to \$179 million on the back of new product launches. Overall credit card operating income fell three per cent from the previous period. Mortgage income grew 11 per cent or \$16 million, with growth in outstandings more than offsetting the impact of margin pressure.

WHOLESALE BANKING

As with Consumer Banking, the performance of Wholesale Banking excluding Korea is compared to the first half of 2005, whilst Wholesale Banking in Korea is compared to the second half of 2005.

Wholesale Banking Excluding Korea

Wholesale Banking had a very strong first half with the client focused strategy again delivering significant income growth across multiple geographies, products and segments.

Income grew \$300 million, or 21 per cent, to \$1,713 million underpinned by client income growth of 21 per cent. Client income continues to comprise around four fifths of total income and is the key driver of sustained growth. The pace of income growth in products such as foreign exchange, debt capital markets syndications, derivatives and options, reflects the significant investments in previous years.

Operating expense growth was 20 per cent or \$157 million. Investment spend was targeted at expanding product reach and capability, upgrading systems infrastructure, expanding client coverage and reinforcing compliance and control.

Operating profit before impairment losses grew 22 per cent or \$143 million.

The net loan impairment release was \$63 million compared to a net charge of \$1 million in the equivalent period last year. This net release reflected the continued benign credit environment, with new provisions of only \$31 million, and continued success in achieving recoveries.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

WHOLESALE BANKING continued

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

6 months ended 30.06.06											
Asia Pacific											
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Wholesale Banking Total Ex Korea \$million	Wholesale Banking Total \$million
Operating Income	289	120	76	204	265	222	244	187	310	1,713	1,917
Expenses	(141)	(71)	(30)	(82)	(150)	(70)	(109)	(107)	(255)	(933)	(1,015)
Loan impairment	30	(3)	4	(7)	(2)	13	2	(8)	27	63	56
Other impairment	–	–	–	–	–	–	–	(6)	(2)	(8)	(8)
Operating profit	178	46	50	115	113	165	137	66	80	835	950

6 months ended 30.06.05											
Asia Pacific											
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Wholesale Banking Total Ex Korea \$million	Wholesale Banking Total \$million
Operating Income*	265	98	55	100	232	159	210	131	263	1,413	1,513
Expenses	(116)	(61)	(27)	(44)	(134)	(57)	(74)	(95)	(212)	(776)	(820)
Loan impairment	(41)	(17)	3	–	64	4	(1)	(27)	14	(1)	(1)
Other impairment	(1)	–	–	–	–	1	–	–	(1)	(1)	(1)
Operating profit	107	20	31	56	162	107	135	9	64	635	691

6 months ended 31.12.05											
Asia Pacific											
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Wholesale Banking Total Ex Korea \$million	Wholesale Banking Total \$million
Operating Income*	243	92	70	160	214	148	223	164	232	1,386	1,546
Expenses	(118)	(59)	(28)	(83)	(134)	(70)	(83)	(99)	(216)	(807)	(890)
Loan impairment	(42)	4	4	(5)	53	2	43	(3)	51	112	107
Other impairment	–	–	–	–	–	–	–	(8)	(2)	(10)	(10)
Operating profit	83	37	46	72	133	80	183	54	65	681	753

* As more fully explained in note 2 on page 33 and note 29 on page 57, internal income has been restated. The impact is to increase Wholesale Banking total operating income by \$5 million in the second half of 2005 with a corresponding decrease in Consumer Banking.

When looking at the performance of Wholesale Banking on a geographic basis it is important to note that it is a network business. This means the geographic segmentation can give a somewhat imperfect view of the relative performance of different parts of the business.

In Hong Kong, income grew \$24 million, or nine per cent, to \$289 million, with a sharp 47 per cent increase in global markets' sales, particularly in derivatives and foreign

exchange. Cash management benefited from the favourable interest rate environment and custody from active equity markets. Expenses grew 22 per cent to \$141 million with most of this increase directed towards building the sales force, product capabilities, and deepening income generation from existing client relationships. Recoveries drove a sharp improvement in the loan impairment charge with a net release of \$30 million.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

WHOLESALE BANKING continued

Income in Singapore was up 22 per cent to \$120 million. Cash management benefited from the interest rate environment and helped to deliver 25 per cent client income growth. Global markets' sales were up 37 per cent driven by derivatives and foreign exchange products together with strong contributions from corporate finance and syndications. Much of this growth came from global corporates. Expenses grew 16 per cent to \$71 million reflecting increased investments in product and sales capabilities to sustain the strong client income momentum.

In Malaysia, income increased 38 per cent to \$76 million with strong growth in cash management and foreign exchange, particularly in the local corporate segment. Expenses increased 11 per cent to \$30 million.

Other Asia Pacific delivered strong income growth of 14 per cent to \$265 million, with expenses rising 12 per cent, to \$150 million. Operating profit before impairment increased 17 per cent or \$17 million. Loan impairment was only \$2 million but in the absence of the significant loan impairment releases and recoveries seen last year, operating profit was lower by 30 per cent at \$113 million.

India delivered operating income growth of \$63 million or 40 per cent to \$222 million. Operating income was driven by cash management, trade finance, derivatives and foreign exchange, and corporate finance, and also benefited from legal recoveries. Expenses increased 23 per cent with investment in new products, infrastructure and sales. Loan impairment benefited from the benign credit environment, with recoveries and releases contributing to a net credit of \$13 million. Operating profit increased 54 per cent.

Operating income in MESA rose 16 per cent to \$244 million. Client income grew 23 per cent driven by a strong performance in cash management. Corporate finance and strong interest rate derivatives performance also contributed to income growth. Investments in staff and in infrastructure to support the double-digit income growth increased expenses 47 per cent to \$109 million. Operating profit in MESA grew by one per cent to \$137 million.

In Africa, income at \$187 million was up 43 per cent on the prior period. Operating income improvements were driven by product sales and strong trading results from asset and liability management (ALM). Client income growth was particularly strong in Kenya, Ghana and Nigeria. Expenses increased 13 per cent. Operating profit increased \$57 million to \$66 million. Africa also benefited from the absence of the hyperinflationary charge of \$44 million taken in the first half of 2005.

Operating income in the Americas, UK and Group Head Office increased by 18 per cent to \$310 million. Expenses grew by 20 per cent reflecting investment in products and sales. Strong loan recoveries helped drive operating profit up 25 per cent.

Korea Wholesale Banking

Wholesale Banking's results in Korea are compared to the second half of 2005. Operating income increased by 28 per cent and operating profit increased by 60 per cent to \$115 million. The increase in operating income was primarily driven by trade and lending and by global markets' products, particularly derivatives and foreign exchange.

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

	6 months ended 30.06.06			6 months ended 30.06.05*			6 months ended 31.12.05*		
	Total	Korea	Ex Korea	Total	Korea	Ex Korea	Total	Korea	Ex Korea
Operating Income by Product	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Trade and Lending	511	77	434	438	33	405	442	45	397
Global Markets**	925	86	839	756	58	698	681	65	616
Cash Management and Custody	481	41	440	319	9	310	423	50	373
	1,917	204	1,713	1,513	100	1,413	1,546	160	1,386

* Restated. See note 2 on page 33.

** Global markets comprises the following businesses: derivatives and foreign exchange, debt capital markets, corporate finance and ALM.

Product Performance Excluding Korea

Trade and lending income increased seven per cent to \$434 million. Trade balances grew, with a double-digit increase in volumes, more than offsetting the impact of tightening margins whilst lending income was broadly flat due to margin compression and tight discipline on asset growth.

Global markets' income grew strongly by \$141 million or 20 per cent to \$839 million. Rates and foreign exchange sales benefited from a more sophisticated suite of products aided by market volatility resulting in increased penetration amongst

local corporates. The debt capital markets business grew significantly as both product and distribution capability was expanded. In addition corporate finance achieved good growth. ALM income was down over the equivalent period.

Cash management and custody income was up 42 per cent at \$440 million. The drivers of this increase were both increased balances, up almost 25 per cent year on year, as well as improved margins in a higher rate environment.

STANDARD CHARTERED PLC - 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:

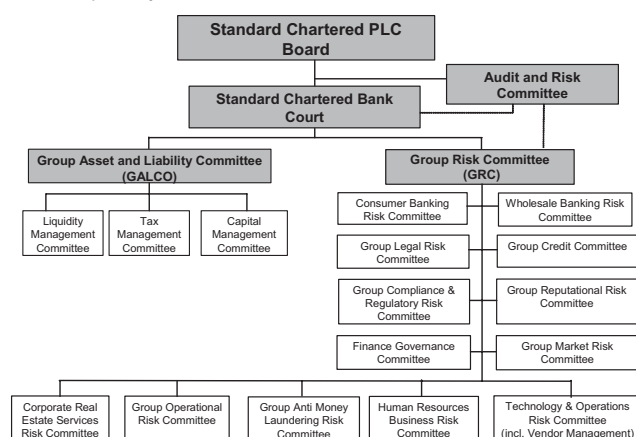
- ensuring that business activities are controlled on the basis of risk adjusted return;
- managing risk within agreed parameters with risk quantified wherever possible;
- assessing risk at the outset and throughout the time that the Group continues to be exposed to it;
- abiding by all applicable laws and regulations and good governance standards in every country in which the Group does business;
- applying high and consistent ethical standards to the Group's 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 independent 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 is responsible for credit risk, market risk, operational risk, compliance and regulatory risk, legal risk and reputational risk. GALCO is responsible for liquidity risk, structural interest rate and foreign exchange exposures, and for capital ratios.

The following chart shows the relationship between GRC and the Group's key risk committees.



All the Group Executive Directors (GEDs) of Standard Chartered PLC, directors of Standard Chartered Bank 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. 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 is designed to ensure 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 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 who 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, provide assurance that risk is being measured and managed in accordance with the Group's standards and policies.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

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.

The GRC has clear responsibility for credit risk. Standards are approved by the GRC, which oversees the delegation of 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 adapted to 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 Officer take responsibility for managing pricing for risk, portfolio diversification and overall asset quality within the requirements of Group standards, policies and business strategy.

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 are responsible to 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

Total loans and advances to customers have increased by 12 per cent to \$120 billion over the equivalent period last year.

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.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

30.06.06										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans to individuals										
Mortgages	11,281	3,903	2,562	23,240	1,096	1,440	159	214	144	44,039
Other	2,132	1,044	725	4,727	3,114	924	2,160	442	148	15,416
Small and medium enterprises	861	1,651	840	4,754	908	389	90	116	–	9,609
Consumer Banking	14,274	6,598	4,127	32,721	5,118	2,753	2,409	772	292	69,064
Agriculture, forestry and fishing	22	24	43	9	96	83	71	150	378	876
Construction	72	33	23	141	85	248	290	48	18	958
Commerce	1,291	1,132	328	278	826	469	1,530	359	1,343	7,556
Electricity, gas and water	347	16	61	50	257	26	228	54	684	1,723
Financing, insurance and business services	2,535	1,460	687	1,748	1,178	466	1,048	119	1,589	10,830
Governments	–	2,625	3,199	15	155	–	84	–	282	6,360
Mining and quarrying	–	–	8	64	244	28	207	104	863	1,518
Manufacturing	1,773	360	402	2,865	3,053	1,310	1,392	491	2,191	13,837
Commercial real estate	1,249	589	7	737	549	238	3	7	7	3,386
Transport, storage and communication	567	243	106	170	231	101	647	138	1,661	3,864
Other	112	115	39	–	13	3	266	24	55	627
Wholesale Banking	7,968	6,597	4,903	6,077	6,687	2,972	5,766	1,494	9,071	51,535
Portfolio impairment provision	(54)	(26)	(23)	(74)	(198)	(30)	(32)	(10)	(7)	(454)
Total loans and advances to customers	22,188	13,169	9,007	38,724	11,607	5,695	8,143	2,256	9,356	120,145
Total loans and advances to banks	3,131	1,155	153	1,835	3,433	285	1,501	563	5,586	17,642

Total loans and advances to customers include \$595 million held at fair value through profit or loss. Total loans and advances to banks include \$892 million held at fair value through profit or loss account.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

30.06.05										
	Asia Pacific					India \$million	#Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	#Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans to individuals										
Mortgages	12,599	4,416	2,559	18,792	895	1,390	81	85	186	41,003
Other	1,967	1,087	538	3,691	2,943	1,269	2,052	413	216	14,176
Small and medium enterprises	761	1,618	705	4,475	315	281	84	92	–	8,331
Consumer Banking	15,327	7,121	3,802	26,958	4,153	2,940	2,217	590	402	63,510
Agriculture, forestry and fishing	–	19	54	–	78	15	20	146	283	615
Construction	64	240	10	14	78	99	202	47	31	785
Commerce	1,765	948	189	347	805	270	1,373	339	894	6,930
Electricity, gas and water	507	21	90	76	233	108	185	31	636	1,887
Financing, insurance and business services	1,450	909	628	2,467	980	605	1,555	170	1,956	10,720
Governments	–	1,520	1,270	51	228	–	72	–	506	3,647
Mining and quarrying	–	31	30	5	226	9	133	106	729	1,269
Manufacturing	1,531	288	273	1,382	2,577	837	1,427	423	2,220	10,958
Commercial real estate	1,181	629	1	1,116	474	9	1	33	1	3,445
Transport, storage and communication	296	299	75	211	269	220	349	127	1,051	2,897
Other	18	68	52	441	111	59	201	12	70	1,032
Wholesale Banking	6,812	4,972	2,672	6,110	6,059	2,231	5,518	1,434	8,377	44,185
Portfolio impairment Provision	(37)	(29)	(23)	(61)	(70)	(33)	(29)	(10)	(22)	(314)
Total loans and advances to customers	22,102	12,064	6,451	33,007	10,142	5,138	7,706	2,014	8,757	107,381
Total loans and advances to banks	3,667	2,956	474	2,804	1,596	195	1,166	199	7,898	20,955

A reclassification of \$997 million from Other to Small and medium enterprises that was made at 30 June 2005 has been reversed.

Total loans and advances to customers include \$871 million held at fair value through profit or loss. Total loans and advances to banks include \$1,081 million held at fair value through profit or loss account.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

	31.12.05									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans to individuals										
Mortgages	12,051	4,129	2,532	22,522	996	1,469	132	88	152	44,071
Other	2,154	1,043	663	3,954	3,145	947	2,001	525	158	14,590
Small and medium enterprises	791	1,673	794	4,727	989	332	78	107	–	9,491
Consumer Banking	14,996	6,845	3,989	31,203	5,130	2,748	2,211	720	310	68,152
Agriculture, forestry and fishing	24	–	44	9	110	17	25	183	234	646
Construction	91	48	11	90	64	139	223	41	6	713
Commerce	2,004	958	325	237	598	392	1,324	420	819	7,077
Electricity, gas and water	290	1	65	17	284	49	180	12	664	1,562
Financing, insurance and business services	1,425	925	589	1,135	1,065	502	1,235	168	1,842	8,886
Governments	–	2,323	1,976	66	101	–	70	7	331	4,874
Mining and quarrying	24	11	8	19	140	10	185	75	656	1,128
Manufacturing	1,223	302	344	1,702	2,955	1,019	1,210	402	2,186	11,343
Commercial real estate	1,194	834	3	797	555	61	5	13	18	3,480
Transport, storage and communication	320	235	240	80	304	108	452	174	1,477	3,390
Other	50	85	49	750	11	5	257	46	40	1,293
Wholesale Banking	6,645	5,722	3,654	4,902	6,187	2,302	5,166	1,541	8,273	44,392
Portfolio impairment provision	(57)	(26)	(30)	(68)	(107)	(33)	(29)	(10)	(7)	(367)
Total loans and advances to customers	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Total loans and advances to banks	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959

Total loans and advances to customers include \$386 million held at fair value through profit or loss. Total loans and advances to banks include \$1,258 million held at fair value through profit or loss account.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

Maturity analysis

Approximately 49 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 79 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 64 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.

	30.06.06			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking				
Mortgages	3,513	9,201	31,325	44,039
Other	8,527	5,882	1,007	15,416
SME	5,827	2,038	1,744	9,609
Total	17,867	17,121	34,076	69,064
Wholesale Banking	40,942	7,443	3,150	51,535
Portfolio impairment provision				(454)
Loans and advances to customers	58,809	24,564	37,226	120,145

	30.06.05			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking				
Mortgages	5,016	10,432	25,555	41,003
Other	7,259	5,079	1,838	14,176
SME	6,117	415	1,799	8,331
Total	18,392	15,926	29,192	63,510
Wholesale Banking	32,898	7,572	3,715	44,185
Portfolio impairment provision				(314)
Loans and advances to customers	51,290	23,498	32,907	107,381

	31.12.05			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking				
Mortgages	4,756	9,598	29,717	44,071
Other	8,352	4,666	1,572	14,590
SME	5,883	1,687	1,921	9,491
Total	18,991	15,951	33,210	68,152
Wholesale Banking	33,450	7,246	3,696	44,392
Portfolio impairment provision				(367)
Loans and advances to customers	52,441	23,197	36,906	112,177

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

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. For mortgages those accounts more than 150 days past due 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 individually, 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 cover ratio reflects the extent that the gross non-performing loans are covered by the individual and portfolio impairment provisions. The balance of non-performing loans not covered by impairment provisions reflects the level of collateral held and/or the estimated net value of any recoveries.

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

30.06.06										
Asia Pacific										
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
Loans and advances										
Gross non-performing	102	113	186	683	157	48	26	17	20	1,352
Individual impairment provision	(27)	(33)	(67)	(287)	(94)	(14)	(18)	(11)	–	(551)
Non-performing loans net of individual impairment provision	75	80	119	396	63	34	8	6	20	801
Portfolio impairment provision										(362)
Net non-performing loans and advances										439
Cover ratio										68%

30.06.05*										
Asia Pacific										
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
Loans and advances										
Gross non-performing	69	124	162	868	63	42	37	16	31	1,412
Individual impairment provision	(28)	(29)	(61)	(302)	(24)	(12)	(29)	(7)	(5)	(497)
Non-performing loans net of individual impairment provision	41	95	101	566	39	30	8	9	26	915
Portfolio impairment provision										(222)
Net non-performing loans and advances										693
Cover ratio										51%

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

	31.12.05*									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans 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%

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB

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 Assets 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 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 is 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 arising from the loan, including the value of any realisable collateral. 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 cover ratio reflects the extent to which the gross non-performing loans are covered by the individual and portfolio impairment provisions. At 79 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 following tables set out the total non-performing portfolio in Wholesale Banking:

	30.06.06									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans and advances										
Gross non-performing	295	113	32	125	117	28	45	97	219	1,071
Individual Impairment provision	(176)	(85)	(31)	(45)	(104)	(23)	(30)	(57)	(204)	(755)
Non-performing loans and advances net of individual impairment provision	119	28	1	80	13	5	15	40	15	316
Portfolio impairment provision										(93)
Net non-performing loans and advances										223
Cover ratio										79%

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

	30.06.05									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans and advances										
Gross non-performing	356	135	50	150	165	79	96	85	489	1,605
Individual Impairment provision	(300)	(116)	(47)	(50)	(148)	(32)	(84)	(50)	(407)	(1,234)
Non-performing loans and advances net of individual impairment provision	56	19	3	100	17	47	12	35	82	371
Portfolio impairment provision										(92)
Net non-performing loans and advances										279
Cover ratio										83%

	31.12.05									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Loans 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%

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

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:

	30.06.06									
	Asia Pacific							Americas UK & Group Head Office		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		
Provisions held at 1 January 2006	279	140	96	361	179	40	64	60	167	1,386
Exchange translation differences	–	5	3	23	6	(1)	(1)	(1)	6	40
Amounts written off	(37)	(51)	(24)	(63)	(185)	(33)	(33)	(6)	(4)	(436)
Recoveries of amounts previously written off	30	4	6	–	9	9	6	–	1	65
Discount unwind	(2)	(1)	(2)	(18)	–	–	–	(1)	(1)	(25)
Other	(63)	–	–	–	–	1	–	–	65	3
New provisions	59	36	49	48	203	37	27	25	2	486
Recoveries/provisions no longer required	(63)	(15)	(30)	(19)	(14)	(16)	(15)	(9)	(32)	(213)
Net charge against/(credit) to profit	(4)	21	19	29	189	21	12	16	(30)	273
Provisions held at 30 June 2006	203	118	98	332	198	37	48	68	204	1,306

	30.06.05									
	Asia Pacific							Americas UK & Group Head Office		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		
Provisions held at 1 January 2005	294	119	127	1	319	43	125	64	457	1,549
Exchange translation differences	2	(4)	–	(3)	(7)	–	(2)	(4)	(6)	(24)
Amounts written off	(48)	(9)	(36)	(17)	(134)	(30)	(27)	(21)	(30)	(352)
Recoveries of amounts previously written off	17	3	5	–	16	11	6	2	5	65
Acquisitions	–	–	–	352	–	–	–	–	–	352
Discount unwind	(3)	(2)	(2)	(9)	(2)	–	1	(3)	(3)	(23)
Other	–	–	4	–	(4)	–	–	–	–	–
New provisions	92	56	26	31	72	57	25	28	2	389
Recoveries/provisions no longer required	(26)	(18)	(16)	(3)	(88)	(37)	(15)	(9)	(13)	(225)
Net charge against/(credit) to profit	66	38	10	28	(16)	20	10	19	(11)	164
Provisions held at 30 June 2005	328	145	108	352	172	44	113	57	412	1,731

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

	31.12.05									
	Asia Pacific						Americas UK & Group Head Office			
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	\$million	Total \$million
Provisions held at 1 July 2005	328	145	108	352	172	44	113	57	412	1,731
Exchange translation differences	(9)	2	1	7	(1)	(1)	7	–	(7)	(1)
Amounts written off	(108)	(21)	(22)	(4)	(70)	(36)	(43)	(22)	(193)	(519)
Recoveries of amounts previously written off	32	3	6	5	20	10	8	2	2	88
Discount unwind	–	(1)	(2)	(19)	–	(1)	(1)	1	(2)	(25)
Other	1	–	(4)	–	23	(1)	1	(2)	3	21
New provisions	73	36	36	26	81	48	23	32	10	365
Recoveries/provisions no longer required	(38)	(24)	(27)	(6)	(46)	(23)	(44)	(8)	(58)	(274)
Net charge against/(credit) to profit	35	12	9	20	35	25	(21)	24	(48)	91
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. The setting and management of country limits is delegated 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.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

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.

	30.06.06				30.06.05			
	Public sector \$million	Banks \$million	Other \$million	Total \$million	Public sector \$million	Banks \$million	Other \$million	Total \$million
Korea	14	1,500	2,854	4,368	15	1,644	2,228	3,887
Hong Kong	1	480	3,846	4,327	2	218	2,731	2,951
USA	881	540	2,673	4,094	1,676	830	2,637	5,143
Australia	–	2,667	259	2,926	1	1,806	129	1,936
France	137	2,530	214	2,881	164	2,032	194	2,390
Singapore	–	716	2,132	2,848	1	173	2,075	2,249
India	2	1,028	1,652	2,682	49	885	1,252	2,186
China	57	1,073	1,322	2,452	41	903	1,233	2,177

	31.12.05			
	Public sector \$million	Banks \$million	Other \$million	Total \$million
Korea	13	1,476	2,006	3,495
Hong Kong	1	311	2,776	3,088
USA	1,227	555	2,505	4,287
Australia	–	1,587	242	1,829
France	159	2,550	155	2,864
Singapore	–	326	1,945	2,271
India	1	949	1,456	2,406
China	63	982	1,405	2,450

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

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 (GMRC) 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. Group Market Risk (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.

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 in response to particular market conditions. A consistent stress testing approach is applied to trading and banking 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 as part of its oversight 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.

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 historical simulation to measure VaR on all market risk related activities.

The total VaR for trading and banking books combined at 30 June 2006 was \$9.7 million (30 June 2005: \$12.9 million, 31 December 2005: \$10.8 million).

Interest rate related VaR for trading and banking books was \$9.2 million (30 June 2005: \$14.0 million, 31 December 2005: \$10.3 million) and foreign exchange related VaR was \$2.9 million (30 June 2005: \$1.4 million, 31 December 2005: \$1.1 million).

The average total VaR for trading and banking books during the period to 30 June 2006 was \$10.7 million (30 June 2005:

\$14.3 million, 31 December 2005: \$12.4 million) with a maximum exposure of \$12.7 million.

VaR for interest rate risk in the banking books of the Group totalled \$8.4 million at 30 June 2006 (30 June 2005: \$10.8 million, 31 December 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 was \$5.5 million, compared with \$4.1 million during the period to 30 June 2006 and \$4.5 million in the period to 31 December 2005.

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 the period was \$2.6 million (30 June 2005: \$2.1 million, 31 December 2005: \$2.0 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 the period was \$2.9 million (30 June 2005: \$2.4 million, 31 December 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 28 on page 56 for further information on Market Risk.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

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 may hedge the value of its foreign currency denominated investments in subsidiaries and branches where it considers there is a risk of a significant exchange rate movement. In general, however, 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 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 as they fall due.

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 with regional and country Asset and Liability Committees (ALCOs).

Due to the diversified nature of the Group's business, the Group's policy is that liquidity is more effectively managed 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 for 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.

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 separate Group operational risk function 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 operational risk exposures, and for 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.

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

RISK continued

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 issues 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.

From an organisational perspective, the Group manages reputational risk through a combination of Country Management Committees and the Group Reputational Risk Committee. 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.

A critical element of the role of the Group Reputational Risk Committee is to act as a radar for the Group in relation to the identification of emerging or thematic risks.

At a country level, the Country Chief Executive Officer (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.

Independent Monitoring

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

STANDARD CHARTERED PLC - FINANCIAL REVIEW continued

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.

	30.06.06 \$million	*30.06.05 \$million	31.12.05 \$million
Tier 1 capital:			
Called up ordinary share capital and preference shares	6,067	5,964	5,982
Eligible reserves	7,510	5,466	6,151
Minority interests	165	84	115
Innovative Tier 1 securities	2,186	1,458	1,542
Less: Restriction on innovative Tier 1 securities	(492)	(125)	(83)
Goodwill and other intangible assets	(4,459)	(4,233)	(4,321)
Unconsolidated associated companies	226	180	186
Other regulatory adjustments	90	95	153
Total Tier 1 capital	11,293	8,889	9,725
Tier 2 capital:			
Eligible revaluation reserves	191	94	195
Portfolio impairment provision	455	314	368
Qualifying subordinated liabilities:			
Perpetual subordinated debt	3,260	2,618	3,128
Other eligible subordinated debt	4,325	4,027	4,169
Less: Amortisation of qualifying subordinated liabilities	(496)	(237)	(229)
Restricted innovative Tier 1 securities	492	125	83
Total Tier 2 capital	8,227	6,941	7,714
Investments in other banks	(149)	(24)	(148)
Other deductions	(207)	(86)	(173)
Total capital base	19,164	15,720	17,118
Banking book:			
Risk weighted assets	104,466	95,856	99,378
Risk weighted contingents	21,477	16,576	16,274
	125,943	112,432	115,652
Trading book:			
Market risk	4,249	6,091	6,701
Counterparty/settlement risk	4,906	3,008	3,571
Total risk weighted assets and contingents	135,098	121,531	125,924
Capital ratios:			
Tier 1 capital	8.4%	7.3%	7.7%
Total capital	14.2%	12.9%	13.6%

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB.

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. 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 the amounts reported in respect of 2005. IAS 32 and IAS 39 were adopted by the Group on January 1, 2005 and adjustments required to adopt IAS 32 and 39 are set out in note 55 to the Group's audited consolidated financial statements as of and for the year ended December 31, 2005 in Annex E to this Offering Circular.

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 \$m	Underlying \$m	As reported \$m	*One off items \$m	Underlying \$m	As reported \$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 \$m	*Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	Consumer Banking Total \$m
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Korea \$m	Other Asia Pacific \$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 \$m	*Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	Consumer Banking Total \$m
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Korea \$m	Other Asia Pacific \$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 \$m	SCFB \$m	Underlying \$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 \$m	*Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	Wholesale Banking Total \$m
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Korea \$m	Other Asia Pacific \$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 \$m	*Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	Wholesale Banking Total \$m
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Korea \$m	Other Asia Pacific \$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 \$m	SCFB \$m	Underlying \$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 \$m	SCFB \$m	Underlying \$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)	–
Operating profit	1,278	137	1,141	1,058

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 \$m	SCFB \$m	Underlying \$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)
Operating profit	1,439	90	1,349	1,175

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 \$m	SCFB \$m	Underlying \$m	\$m
Income	954	859	95	70
Expenses	(632)	(579)	(53)	(41)
Loan impairment	(61)	(53)	(8)	3
Operating profit	261	227	34	32

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 \$m	*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	12,051	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
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 and communication	320	235	240	80	304	108	452	174	1,477	3,390
Other	50	85	49	750	11	5	257	46	40	1,293
Wholesale Banking	6,645	5,722	3,654	4,902	6,187	2,302	5,166	1,541	8,273	44,392
Portfolio impairment provision	(57)	(26)	(30)	(68)	(107)	(33)	(29)	(10)	(7)	(367)
Total loans and advances to customers	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Total loans and advances to banks	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959

* 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					India \$m	#*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	262	22,018
Other	2,097	651	488	194	2,909	1,201	1,928	431	102	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	364	35,498
Agriculture, forestry and fishing	–	26	55	–	56	15	19	171	314	656
Construction	154	27	6	–	34	105	239	46	4	615
Commerce	1,560	804	136	31	864	262	1,202	353	1,113	6,325
Electricity, gas and water	387	40	71	78	193	104	119	102	300	1,394
Financing, insurance and business services	1,914	1,608	554	41	721	497	1,362	47	2,268	9,012
Loans to governments	–	306	1,551	–	–	–	16	7	225	2,105
Mining and quarrying	–	65	63	–	122	1	149	95	1,032	1,527
Manufacturing	1,343	423	269	316	2,196	814	1,267	404	2,294	9,326
Commercial real estate	984	721	2	–	388	–	–	29	2	2,126
Transport, storage and communication	366	280	128	134	187	226	299	165	1,177	2,962
Other	19	128	51	–	354	43	243	24	86	948
Wholesale Banking	6,727	4,428	2,886	600	5,115	2,067	4,915	1,443	8,815	36,996
General Provision									(335)	(335)
Total loans and advances to customers	21,744	11,765	6,374	794	8,961	4,692	6,972	2,013	8,844	72,159
Total loans and advances to banks	2,852	2,072	349	1,646	1,705	171	892	374	7,321	17,382

* 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)
Loans and advances to customers	52,441	23,197	36,906	112,177	36,254	13,703	22,537	72,159

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					India \$m	*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 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								Americas UK & Group Head Office \$m	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		
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						*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	India \$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 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

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

* 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					India \$m	*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	465	1,661
Exchange translation differences	–	3	–	–	2	2	(4)	2	8	13
Acquisitions	–	–	–	–	36	–	–	–	–	36
Amounts written off	(154)	(62)	(63)	–	(142)	(65)	(42)	(21)	(58)	(607)
Recoveries of amounts previously written off	29	7	10	–	12	24	7	4	2	95
Other	4	–	(2)	–	(42)	(1)	(5)	–	38	(8)
New provision	207	60	36	1	94	106	43	27	35	609
Recoveries/provisions no longer required	(65)	(18)	(29)	–	(48)	(80)	(35)	(15)	(50)	(340)
Net charge against/(credit) to profit	142	42	7	1	46	26	8	12	(15)	269
Provisions held at 31 December 2004	289	113	96	1	302	41	122	55	440	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).

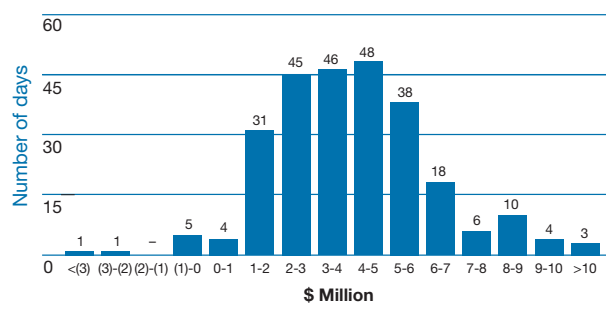
The average total VaR for trading and banking books during the year to 31 December 2005 was \$12.4 million (31 December 2004: \$15.8 million) with a maximum exposure of \$20.6 million.

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 \$m	*2004 \$m
Tier 1 capital:		
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
Total Tier 1 capital	9,725	7,964
Tier 2 capital:		
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
Total Tier 2 capital	7,714	5,889
Investments in other banks	(148)	(33)
Other deductions	(173)	(34)
Total capital base	17,118	13,786
Banking book:		
Risk weighted assets	99,378	69,438
Risk weighted contingents	16,274	14,847
	115,652	84,285
Trading book:		
Market risks	6,701	4,608
Counterparty/settlement risk	3,571	3,231
Total risk weighted assets and contingents	125,924	92,124
Capital ratios:		
Tier 1 capital	7.7%	8.6%
Total capital	13.6%	15.0%

* As previously reported under UK GAAP.

Annex C – 2004 Financial Review

Financial Review

Group Summary

The Group delivered another strong performance in the year ended 31 December 2004 with a record profit before tax of \$2,158 million, up 39 per cent on the previous year. Normalised earnings per share has grown by 40 per cent to 125.9 cents. (Refer to note 12 on page 85 for the details of basic and diluted earnings per share).

This performance is the result of broadly based organic growth across both businesses and a significantly improved debt performance. The results have also benefited from several one-off items, described below, which together generated profit of \$85 million before tax. Operating profit before tax adjusted to exclude these one-off items increased by 34 per cent compared to 2003.

Prior period figures have been restated, principally to reflect the full adoption of the provisions of Financial Reporting Standard 17 – Retirement Benefits (FRS17). See note 6 on page 78.

The Group has made several acquisitions in 2004. In August, it acquired 100 per cent of Advantage Limited ('PrimeCredit'), a consumer finance business in Hong Kong, and increased its share in Standard Chartered Bank Nepal Limited from 50 per cent to 75 per cent. In November, the Group entered into a consortium agreement with PT Astra International Tbk to acquire a controlling interest in PT Bank Permata Tbk ('Permata'), an Indonesian commercial bank. The Group's effective interest in Permata at 31 December 2004 was 31.55 per cent. It has been accounted for as a joint venture. In December 2004 the Group acquired from ANZ part of its project finance business, a team of specialists and a portfolio of loan commitments amounting to \$1.26 billion. Together these acquisitions contributed \$8 million to profit before tax in 2004.

Net revenue has grown by 13 per cent in total to \$5,367 million compared to 2003. The increase is 11 per cent when adjusted for the one-off items above. Business momentum is strong and revenue has grown at twice the pace of revenue growth a year ago. Revenue from outside Hong Kong and Singapore, our two most mature and competitive markets, now comprise 64 per cent of the Group's total revenue and grew at 19 per cent over 2003.

Net interest income grew by seven per cent to \$3,168 million. A fall in interest margins from 2.8 per cent to 2.7 per cent has been offset by ten per cent growth in average earning assets. Interest spread fell from 2.5 per cent to 2.4 per cent.

Other finance income at \$10 million compares with a finance charge of \$13 million in 2003, principally as a result of contributions made to the UK and Hong Kong funds.

Net fees and commissions increased by 15 per cent from \$1,156 million to \$1,334 million. Growth was seen in most markets, driven by wealth management, mortgages and corporate advisory services.

Dealing profits grew by 23 per cent from \$525 million to \$648 million, largely driven by customer led foreign exchange dealing. In particular, retail foreign exchange performed well.

Other operating income at \$207 million compares to \$104 million in 2003. The increase reflects the one-off items partly offset by a fall in profits on investment securities as a result of a programme to reduce the risk in the book in 2003.

Total operating expenses increased from \$2,643 million to \$2,996 million. Of this increase \$44 million arose from accelerated goodwill amortisation. The adjusted cost increase, excluding goodwill, and one-off items was 11 per cent, in line with adjusted revenue growth. The normalised cost income ratio has fallen from 53.6 per cent in 2003 to 53.5 per cent in 2004. The Group's investment programmes over recent years in market expansion, new products, distribution outlets and sales capabilities have been paying back in good revenue growth. This investment continued in 2004 together with increased spend on the Group's regulatory and control infrastructure.

Provisions for bad and doubtful debts fell from \$536 million to \$214 million, a reduction of 60 per cent. This includes a \$55 million release from the Group's general provision. This performance is a direct result of significantly strengthened risk management discipline, as well as a favourable credit environment.

One-off items from Corporate Activity

In January 2004 the Group sold its investment in BOC Hong Kong (Holdings) Limited realising a net profit of \$36 million and in May 2004, it disposed of its investment in KorAm Bank realising a net profit of \$95 million. These gains were partially offset by a \$23 million premium paid on the repurchase of surplus subordinated debt in India and are reported in other operating income.

One-off costs of \$18 million were incurred on incorporating the Group's business in Hong Kong and, at the end of December, the Group agreed to donate \$5 million to the Tsunami relief effort.

The effect of these gains and charges, all of which arose from corporate decisions taken at the centre and which are non-recurring in nature, have not been attributed to either Consumer Banking or Wholesale Banking in the business segmental results.

Consumer Banking

Consumer Banking has built up strong momentum with operating profit up 42 per cent in 2004 to \$1,064 million. The accelerated investment in growth opportunities in 2003 is delivering results. Revenue increased by eight per cent, which is twice the rate that was achieved in 2003, to \$2,693 million. This was driven by loan growth of 18 per cent outside Hong Kong and an increased contribution across all product segments, in particular the SME business. Investing for growth has led to a 10 per cent increase in costs when compared to 2003. The specific bad debt charge fell by 43 per cent. The debt charge in Hong Kong fell significantly and charges elsewhere also improved. In addition, \$29 million of general provision held against the Consumer portfolio has been released in 2004.

Hong Kong delivered an increase in operating profit of 77 per cent to \$462 million. This resulted from a lower debt charge, cost efficiencies and improved mortgage margins, although these showed some decline in the second half. Revenue was flat at \$954 million. Improved margins in mortgages and a good performance in wealth management was offset by subdued loan demand across the market. Costs were tightly controlled and, in the fourth quarter, an operational efficiency programme was initiated to reduce back office costs and improve productivity.

In Singapore, operating profit was broadly flat at \$180 million in an intensely competitive environment. Although asset growth was strong at 16 per cent and there was good performance in wealth management and the SME business, revenue was offset by contracting margins, particularly in the mortgage business. Cost growth was five per cent, largely supporting product investment.

Operating profit in Malaysia was up 17 per cent to \$75 million with strong performance across all products and a lower debt charge. Revenue grew by eight per cent. Continued margin pressure in the mortgage portfolio was more than offset by higher volume. Revenue from wealth management increased significantly, driven by unit trust sales. Costs increased by nine per cent as a result of significant infrastructure investment.

In Other Asia Pacific, operating profit at \$97 million was 11 per cent higher than in 2003 with revenue up 18 per cent. Thailand, Taiwan, Indonesia and Korea performed well across a broad range of products. Costs increased by 23 per cent as the Group continued to invest in China and Korea.

In India, strong asset growth and a lower debt charge drove operating profit up by 100 per cent to \$78 million, despite contracting margins in both mortgages and deposit accounts. Costs increased by 22 per cent to \$153 million as a result of continued investment in enhanced risk management, new products and delivery channels to support rapid business growth.

Operating profit in the United Arab Emirates (UAE) increased by 42 per cent to \$64 million with revenue up by 22 per cent, driven by credit cards, personal loans and wealth management. Costs were 11 per cent higher than in 2003, reflecting further investment in infrastructure and product capability. Elsewhere in the Other Middle East and Other South Asia (MESA) region operating profit grew by 38 per cent to \$69 million with strong performances in wealth management, cards and personal loans, particularly in Bangladesh, Pakistan and Bahrain.

In Africa, operating profit increased from \$7 million to \$17 million with revenue up by 28 per cent to \$218 million. This was largely a result of strong asset growth as new products were launched in a number of countries, including Nigeria, South Africa and Kenya, together with improved margins in Zimbabwe. Costs have grown by 23 per cent. This was driven by continued investment in South Africa and inflationary pressures.

The Americas, UK and Group Head Office have seen an increase in operating profit of 10 per cent to \$22 million, mostly through firm cost control. The re-focused international banking offering has delivered good profit growth, with revenues largely booked in Hong Kong, Singapore and Dubai.

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

	Asia Pacific					MESA				2004
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Consumer Banking Total \$million
Net revenue	954	330	175	393	258	124	172	218	69	2,693
Costs	(415)	(116)	(86)	(231)	(153)	(51)	(93)	(195)	(48)	(1,388)
Specific	(88)	(40)	(18)	(69)	(29)	(10)	(11)	(6)	–	(271)
General	11	6	4	3	2	1	1	–	1	29
(Charge) for/release of debts	(77)	(34)	(14)	(66)	(27)	(9)	(10)	(6)	1	(242)
Income from joint venture	–	–	–	1	–	–	–	–	–	1
Operating profit	462	180	75	97	78	64	69	17	22	1,064

	Asia Pacific					MESA				2003*
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Consumer Banking Total \$million
Net revenue	954	328	162	333	223	102	138	170	78	2,488
Costs	(411)	(110)	(79)	(188)	(125)	(46)	(83)	(159)	(58)	(1,259)
Specific charge for debts	(282)	(40)	(19)	(58)	(59)	(11)	(5)	(4)	–	(478)
Operating profit	261	178	64	87	39	45	50	7	20	751

*Comparative restated (see note 54 on page 118).

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

Revenue by product	2004 \$million	2003* \$million
Cards and Personal Loans	1,117	1,043
Wealth Management/Deposits	891	805
Mortgages and Auto Finance	638	603
Other	47	37
	2,693	2,488

*Comparative restated (see note 54 on page 118).

Cards and personal loans have delivered increased revenue of seven per cent in a very competitive price environment. Assets have grown by 25 per cent outside of Hong Kong. Hong Kong has returned to profitability despite a seven per cent decline in cards outstandings.

Wealth management revenue has increased by 11 per cent to \$891 million with strong demand for investment products, partially offset by compression in deposit margins.

Mortgages and auto finance revenue has grown by six per cent to \$638 million driven by new products, increased fee income and, in Hong Kong, improved mortgage margins.

Costs in Consumer Banking have increased by 10 per cent to \$1,388 million. This was a direct result of the investment which began in 2003 to expand distribution outlets and launch new products and services in key growth markets.

The specific net charge for debts in Consumer Banking has fallen by 43 per cent to \$271 million. The specific net debt charge in Hong Kong fell significantly as bankruptcy losses continued to fall sharply due to the improving economic environment. Other areas showed a stable or improving performance while sustaining strong business growth.

Wholesale Banking.

Wholesale Banking delivered a strong broadly based performance across all geographies, products and customer segments. Operating profit was up 28 per cent at \$1,190 million. This was achieved on controlled economic capital, through expanding product capabilities and deepening customer relationships. Revenue increased by 14 per cent to \$2,566 million. Customer revenues were up by 19 per cent. Costs increased by 12 per cent due to increased investment in product capabilities such as debt capital markets and derivatives, increased spend on infrastructure and controls, and an increase in performance driven compensation. There was a net specific debt release in 2004 of \$2 million compared to a charge of \$68 million in 2003. This reflected success in changing the risk profile of the business and also a benign credit environment. In addition, a \$26 million release was made from the general provision held against the Wholesale portfolio (2003: \$10 million).

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

										2004
Asia Pacific					MESA					
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Wholesale Banking Total \$million
Net revenue	418	183	95	422	231	147	205	366	499	2,566
Costs	(221)	(110)	(57)	(277)	(97)	(48)	(75)	(162)	(357)	(1,404)
Specific	(54)	(2)	11	22	3	6	7	(6)	15	2
General	6	3	1	4	2	2	2	–	6	26
(Charge) for/release of debts	(48)	1	12	26	5	8	9	(6)	21	28
Amounts written off										
fixed asset investments	–	–	–	–	2	–	–	–	(3)	(1)
Income from joint venture	–	–	–	1	–	–	–	–	–	1
Operating profit	149	74	50	172	141	107	139	198	160	1,190

										2003*
Asia Pacific					MESA					
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Wholesale Banking Total \$million
Net revenue	401	158	73	348	243	132	177	273	447	2,252
Costs	(207)	(100)	(57)	(241)	(87)	(45)	(62)	(123)	(328)	(1,250)
Specific	(23)	7	21	(41)	(1)	9	9	(5)	(44)	(68)
General	–	–	–	–	–	–	–	–	10	10
(Charge) for/release of debts	(23)	7	21	(41)	(1)	9	9	(5)	(34)	(58)
Amounts written off										
fixed asset investments	–	–	–	–	(4)	–	–	–	(7)	(11)
Operating profit	171	65	37	66	151	96	124	145	78	933

*Comparative restated (see note 54 on page 118).

In Hong Kong, net revenue grew by four per cent from \$401 million to \$418 million. The growth was largely from foreign exchange and derivatives on the back of strong trade flows. Costs were \$14 million higher at \$221 million with continued investment in the front office partially offset by a reduction in technology costs.

Revenue in Singapore grew by 16 per cent. Strong customer revenue, particularly from global markets products, more than offset a decline in revenue from asset and liability management. Costs increased by 10 per cent to \$110 million mainly due to investment in risk and governance infrastructure.

In Malaysia, revenue increased from \$73 million to \$95 million with good growth in global markets products facilitated by a wider product mix and advisory services. Costs were held flat at \$57 million through tight control.

The Other Asia Pacific region delivered strong results with excellent contributions in all countries and in particular from Korea and Taiwan. Revenue grew by 21 per cent to \$422 million. This increase was broadly spread across the commercial banking and global markets product range. Costs increased by 15 per cent to \$277 million reflecting investment in product capability in the region.

In India, profit on the sale of investment securities arising as a result of a programme to reduce the risk in the book was significantly lower in 2004. Excluding the effect of this, revenue grew by around 12 per cent. This reflected broad based product growth and a positive contribution from all customer segments. The increase in costs of 11 per cent to \$97 million is the result of investment in new businesses, people and infrastructure to capture further growth opportunities.

In the UAE revenue increased by 11 per cent to \$147 million, driven largely by foreign exchange, cash management and structured global markets products. Elsewhere in the MESA region revenue grew by \$28 million to \$205 million, led by significant cross-selling of global markets products. The increase in costs in the region was due to expansion into new markets, investment in new products, infrastructure and continued strengthening of risk and governance functions.

In Africa, revenue at \$366 million was 34 per cent higher than in 2003. High commodity prices and relative economic stability in a number of key markets have contributed to this result. The contribution from Botswana and Zimbabwe was particularly strong. Costs grew by 32 per cent, mainly due to inflationary pressure and expansion in Nigeria and South Africa.

The Americas, UK and Group Head Office have seen revenue increase by 12 per cent to \$499 million. Strong fees and commissions were partially offset by reduced yield on asset and liability management.

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

Revenue by product	2004 \$million	2003* \$million
Trade and Lending	868	815
Global Markets	1,209	1,054
Cash Management and Custody	489	383
	2,566	2,252

*Comparative restated (see note 54 on page 118).

Trade and lending revenue has increased by seven per cent to \$868 million. Trade finance, underpinned by strong intra-Asian trade flows, has outstripped lending growth.

Global markets revenue has grown strongly at 15 per cent. Investment in new product capability in debt capital markets, asset backed securities, structured trade and derivatives have started to deliver good returns. Revenue from asset and liability management was lower than in 2003 due to the shape of the yield curves, but the decline has stabilised.

Cash management and custody revenue were up by 28 per cent. Cash management grew on the back of higher transaction volumes and an increase of more than 30 per cent in average balances. Custody increased by more than 40 per cent with assets under administration up by more than 50 per cent.

Costs in Wholesale Banking increased by 12 per cent. This was due to further investment for growth, increased spending on infrastructure and controls and higher performance driven costs, largely due to variable compensation.

Wholesale Banking had a net specific debt release of \$2 million compared to a \$68 million charge in the previous period. Gross provisions were down by 37 per cent and recoveries down by 13 per cent. This has been achieved through continued enhancement of risk management processes and improvement in the risk profile, together with a favourable credit environment. \$26 million of general provision was released against the Wholesale portfolio in 2004 (2003: \$10 million).

Risk

Through its risk management structure the Group seeks to manage efficiently the core risks: credit, market, country and liquidity risk arise directly through the Group's commercial activities whilst business, regulatory, operational and reputational risk are normal consequences of any business undertaking. The key element of risk management philosophy is for the risk functions to operate as an independent control working in partnership with the business units to provide a competitive advantage to the Group.

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 of Directors. The Audit and Risk Committee reviews specific risk areas and guides and monitors the activities of the Group Risk Committee and Group Asset and Liability Committee.

All the Executive Directors of Standard Chartered PLC and members of the Standard Chartered Bank Court are members of the Group Risk Committee which is chaired by the Group Executive Director responsible for Risk ('GED Risk'). This Committee has responsibility for determining the Group standards and policies for risk measurement and management, and also delegating authorities and responsibilities to various sub-committees.

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

The GED Risk manages an independent risk function 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 credit committee and delegates credit authorities subject to oversight;
- validates risk models; and
- recommends risk appetite and strategy.

Individual Group Executive Directors 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 Group Risk Committee across all business activity;
- managing risk in line with appetite levels agreed by the Group Risk Committee; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policy.

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

Credit Risk

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, on the banking and trading books.

Clear responsibility for credit risk is delegated from the Board to the Group Risk Committee. Standards and policies for managing credit risk are determined by the Group Risk Committee which also delegates credit authorities through the GED Risk to 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 adapted to different risk environment and business goals. The Risk Officers are located in the businesses to maximise the efficiency of decision-making, but have an independent reporting line into the GED Risk.

Within the Wholesale Banking business, credit analysis includes a review of facility detail, credit grade determination and financial spreading/ratio analysis. The Bank uses a numerical grading system 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. This Committee receives its authority and delegated responsibilities from the Group Risk Committee.

The businesses, working with the Risk Officers, take responsibility for managing pricing for risk, portfolio diversification

and overall asset quality within the requirements of Group standards, policies, and the business strategy.

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 20 per cent during the year to \$71.6 billion. In Consumer Banking growth has resulted from increases in the mortgage book, mainly in Singapore, Malaysia and India. In Wholesale Banking growth was across all regions. This was particularly in trade, syndications and project finance, including the acquisition of the \$1.2 billion ANZ project finance portfolio.

Approximately 49 per cent (2003: 53 per cent) of the portfolio relates to Consumer Banking, predominantly retail mortgages. Other Consumer Banking covers credit cards, personal loans and other secured lending.

Approximately half of the Group's loans and advances are short term in nature and have a maturity of one year or less. The Wholesale Banking portfolio is predominantly short term, with 75 per cent of loans and advances having a 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.

The following tables set out by maturity the amount of customer loans net of provisions:

	2004				2003*			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking								
Mortgages	1,877	4,156	15,985	22,018	1,917	4,143	14,229	20,289
Other	5,241	3,876	403	9,520	4,874	3,534	553	8,961
Small and medium enterprises	989	440	2,050	3,479	558	217	1,631	2,406
Total	8,107	8,472	18,438	35,017	7,349	7,894	16,413	31,656
Wholesale Banking	27,670	5,145	4,099	36,914	22,209	4,526	1,778	28,513
General Provisions	–	–	–	(335)	–	–	–	(425)
Net loans and advances to customers	35,777	13,617	22,537	71,596	29,558	12,420	18,191	59,744

*The analysis of net loans and advances to customers for Consumer and Wholesale Banking at 31 December 2003 has been restated to separately disclose small and medium enterprises within Consumer Banking. This has resulted in a transfer of \$514 million from the Wholesale Banking portfolio to Consumer Banking. There was no impact on total net loans and advances to customers.

The following tables set out an analysis of the Group's net loans and advances as at 31 December 2004 and 31 December 2003 by the principal category of borrowers, business or industry and/or geographical distribution:

	Asia Pacific					MESA				2004
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Total \$million
Loans to individuals										
Mortgages	12,189	5,064	2,422	737	1,194	–	87	63	262	22,018
Other	2,097	651	488	2,622	1,201	819	1,109	431	102	9,520
Small and medium enterprises	731	1,622	578	200	230	13	29	76	–	3,479
Consumer Banking	15,017	7,337	3,488	3,559	2,625	832	1,225	570	364	35,017
Agriculture, forestry and fishing	–	26	55	56	15	–	19	171	314	656
Construction	154	27	6	34	105	103	136	46	4	615
Commerce	1,560	804	136	895	262	824	378	353	1,113	6,325
Electricity, gas and water	387	40	71	271	104	–	119	102	300	1,394
Financing, insurance and business services	1,914	1,608	554	762	415	951	411	47	2,268	8,930
Loans to governments	–	306	1,551	–	–	–	16	7	225	2,105
Mining and quarrying	–	65	63	122	1	92	57	95	1,032	1,527
Manufacturing	1,343	423	269	2,512	814	236	1,031	404	2,294	9,326
Commercial real estate	984	721	2	388	–	–	–	29	2	2,126
Transport, storage and communication	366	280	128	321	226	56	243	165	1,177	2,962
Other	19	128	51	354	43	38	205	24	86	948
Wholesale Banking	6,727	4,428	2,886	5,715	1,985	2,300	2,615	1,443	8,815	36,914
General provision									(335)	(335)
Total loans and advances to customers	21,744	11,765	6,374	9,274	4,610	3,132	3,840	2,013	8,844	71,596
Total loans and advances to banks	2,852	2,399	480	3,554	325	535	932	510	7,335	18,922

Under 'Loans to individuals – Other', \$1,270 million (2003: \$1,371 million) relates to the cards portfolio in Hong Kong. The total cards portfolio is \$3,586 million (2003: \$3,329 million).

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

2003*

	Asia Pacific					MESA			Americas, UK & Group Head Office	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million		\$million
Loans to individuals										
Mortgages	11,974	4,450	1,951	831	640	–	67	30	346	20,289
Other	2,219	703	660	1,990	999	677	1,127	430	156	8,961
Small and medium enterprises	577	1,162	541	–	126	–	–	–	–	2,406
Consumer Banking	14,770	6,315	3,152	2,821	1,765	677	1,194	460	502	31,656
Agriculture, forestry and fishing	6	2	76	49	12	–	24	144	387	700
Construction	104	9	13	43	34	83	91	19	13	409
Commerce	1,350	848	187	717	30	619	394	398	725	5,268
Electricity, gas and water	327	36	25	240	56	3	69	127	84	967
Financing, insurance and business services	1,575	883	428	657	194	434	320	116	1,184	5,791
Loans to governments	–	61	747	8	–	–	13	–	281	1,110
Mining and quarrying	–	14	78	35	–	59	59	16	470	731
Manufacturing	1,326	745	214	2,016	943	179	916	283	1,738	8,360
Commercial real estate	873	663	7	250	–	–	1	18	3	1,815
Transport, storage and communication	491	143	38	118	71	30	237	114	1,513	2,755
Other	23	62	44	170	1	26	166	44	71	607
Wholesale Banking	6,075	3,466	1,857	4,303	1,341	1,433	2,290	1,279	6,469	28,513
General provision									(425)	(425)
Total loans and advances to customers	20,845	9,781	5,009	7,124	3,106	2,110	3,484	1,739	6,546	59,744
Total loans and advances to banks	2,113	1,045	204	2,784	239	605	889	308	5,167	13,354

*The analysis of net loans and advances to customers for Consumer and Wholesale Banking at 31 December 2003 has been restated to separately disclose small and medium enterprises within Consumer Banking. This has resulted in a transfer of \$514 million from the Wholesale Banking portfolio to Consumer Banking. There was no impact on total net loans and advances to customers.

Problem Credits

The Group employs a variety of tools to monitor the loan portfolio and to ensure the timely recognition of problem credits.

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 involving senior risk officers and representatives from the specialist recovery unit, which is independent of the business units. 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 the specialist recovery unit.

In 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 are closely monitored and subject to a special collections process.

In general, loans are treated as non-performing when interest or principal is 90 days or more past due.

Consumer Banking

Provisions are derived on a formulaic basis depending on the product:

Mortgages: a provision is raised where accounts are 150 days past due based on the difference between the outstanding value of the loan and the forced sale value of the underlying asset.

Credit cards: a charge-off is made for all balances which are 150 days past due or earlier as circumstances dictate. In Hong Kong charge-off is currently at 120 days.

Other unsecured Consumer Banking products are charged off at 150 days past due.

For other secured Consumer Banking products a provision is raised at 90 days past due for the difference between the outstanding value and the forced sale value of the underlying asset. The underlying asset is then re-valued periodically until disposal.

It is current practice to provision and write-off exposure in respect of Hong Kong bankruptcies at the time the customer petitions for bankruptcy.

The Small and Medium Enterprises (SME) portfolio is provisioned on a case by case basis.

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

	Asia Pacific					MESA				2004
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Total \$million
Loans and advances –										
Gross non-performing	72	146	181	60	42	14	28	24	46	613
Specific provisions										
for bad and										
doubtful debts	(32)	(24)	(28)	(13)	(12)	(11)	(11)	(9)	(5)	(145)
Interest in suspense	(1)	(4)	(24)	(7)	(8)	(2)	(13)	(8)	(7)	(74)
Net non-performing										
loans and advances	39	118	129	40	22	1	4	7	34	394
Cover ratio										36%

	Asia Pacific					MESA				2003
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Total \$million
Loans and advances –										
Gross non-performing	138	115	192	63	43	16	23	18	10	618
Specific provisions										
for bad and										
doubtful debts	(48)	(17)	(26)	(15)	(11)	(11)	(8)	(7)	(5)	(148)
Interest in suspense	(1)	(3)	(23)	(9)	(9)	(5)	(8)	(7)	(2)	(67)
Net non-performing										
loans and advances	89	95	143	39	23	–	7	4	3	403
Cover ratio										35%

The relatively low Consumer Banking cover ratio reflects the fact that the Group classifies all exposure which is more than 90 days past due as non-performing, whilst specific provisions on unsecured lending are only raised at the time of charge-off.

For secured products, provisions reflect the difference between the value of the underlying assets and the outstanding loan (see details relating to the raising of provisions above).

Wholesale Banking

Loans are designated as non-performing as soon as payment of interest or principal is 90 days or more overdue or where sufficient weakness is recognised so that full payment of either interest or principal becomes questionable. Where customer accounts are recognised as non-performing or display weakness that may result in non-performing status being assigned, they are passed to the management of a specialist unit which is independent of the main businesses of the Group.

For loans and advances designated as non-performing, interest continues to accrue on the customer's account but is not included in income.

Where the principal, or a portion thereof, is considered uncollectible and of such little realisable value that it can no longer be included at its full nominal amount on the balance

sheet, a specific provision is raised. 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 the principal of an account against which a specific provision has been raised, then that amount will be written off.

The following tables set out the total non-performing portfolio in Wholesale Banking including the portfolio covered by a Loan Management Agreement (LMA) with a Thai Government Agency (see note 19 on page 89). This portfolio amounted to \$236 million net of provisions at 31 December 2004 (2003: \$660 million). The net non-performing loan portfolio has decreased by \$607 million (54 per cent) over 2003.

										2004
Asia Pacific					MESA					
Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Total \$million	
Loans and advances –										
Gross non-performing	409	185	117	558	68	49	126	104	674	2,290
Specific provisions for bad and doubtful debts	(257)	(89)	(68)	(256)	(29)	(31)	(69)	(46)	(435)	(1,280)
Interest in suspense	(92)	(56)	(35)	(54)	(26)	(13)	(55)	(42)	(127)	(500)
Net non-performing loans and advances	60	40	14	248	13	5	2	16	112	510
										2003
Asia Pacific					MESA					
Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	Total \$million	
Loans and advances –										
Gross non-performing	357	236	194	1,077	86	52	180	116	887	3,185
Specific provisions for bad and doubtful debts	(220)	(106)	(118)	(375)	(44)	(40)	(99)	(51)	(460)	(1,513)
Interest in suspense	(91)	(64)	(55)	(68)	(30)	(12)	(66)	(43)	(126)	(555)
Net non-performing loans and advances	46	66	21	634	12	–	15	22	301	1,117

Wholesale Banking Cover Ratio

The following tables show the Wholesale Banking cover ratio. The non-performing loans recorded below under Standard Chartered Nakornthon Bank (SCNB) are excluded from the cover ratio calculation as they are the subject of a Loan Management Agreement (LMA) with a Thai Government Agency. Refer to note 19 on page 89.

At 86 per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by specific provision and interest in suspense represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

	Total \$million	SCNB (LMA) \$million	2004 Total excl LMA \$million
Loans and advances – Gross non-performing	2,290	351	1,939
Specific provisions for bad and doubtful debts	(1,280)	(115)	(1,165)
Interest in suspense	(500)	–	(500)
Net non-performing loans and advances	510	236	274
Cover ratio			86%

	Total \$million	SCNB (LMA) \$million	2003 Total excl LMA \$million
Loans and advances – Gross non-performing	3,185	772	2,413
Specific provisions for bad and doubtful debts	(1,513)	(112)	(1,401)
Interest in suspense	(555)	–	(555)
Net non-performing loans and advances	1,117	660	457
Cover ratio			81%

Group

The following tables set out the movements in the Group's total specific provisions against loans and advances:

	Asia Pacific					MESA				2004 Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Americas, UK & Group Head Office \$million	
Provisions held at 1 January 2004	268	123	144	390	55	51	107	58	465	1,661
Exchange translation differences	–	3	–	4	2	(3)	(1)	2	8	15
Amounts written off	(154)	(62)	(63)	(142)	(65)	(13)	(29)	(21)	(58)	(607)
Recoveries of amounts previously written off	29	7	10	12	24	3	4	4	2	95
Other	4	–	(2)	(42)	(1)	–	(5)	–	38	(8)
New provisions	207	60	36	95	106	15	28	27	35	609
Recoveries/provisions no longer required	(65)	(18)	(29)	(48)	(80)	(11)	(24)	(15)	(50)	(340)
Net charge against/ (credit to) profit	142	42	7	47	26	4	4	12	(15)	269
Provisions held at 31 December 2004	289	113	96	269	41	42	80	55	440	1,425

2003

	Asia Pacific					MESA			Americas, UK & Group Head Office	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million		\$million
Provisions held at 1 January 2003	255	159	235	358	60	108	144	53	452	1,824
Exchange translation differences	2	2	–	13	3	–	2	1	10	33
Amounts written off	(353)	(85)	(99)	(120)	(87)	(64)	(32)	(6)	(64)	(910)
Recoveries of amounts previously written off	23	14	10	13	18	1	1	1	3	84
Other	36	–	–	27	1	4	(4)	–	20	84
New provisions	364	72	34	142	142	14	22	24	90	904
Recoveries/provisions no longer required	(59)	(39)	(36)	(43)	(82)	(12)	(26)	(15)	(46)	(358)
Net charge against/ (credit to) profit	305	33	(2)	99	60	2	(4)	9	44	546
Provisions held at 31 December 2003	268	123	144	390	55	51	107	58	465	1,661

General Provision

The general provision is held to cover the inherent risk of losses, which, although not identified, are known by experience to be present in a loan portfolio and to other material uncertainties where specific provisioning is not appropriate. It is not held to cover losses arising from future events.

The Group sets the general provision with reference to past experience by using both Flow Rate and Expected Loss methodology, as well as taking judgemental factors into account. These factors include, but are not confined to, the economic environment in our core markets, the shape of the portfolio with reference to a range of indicators, and management actions taken to proactively manage the portfolio.

During the year, \$39 million of the general provision was applied to cover litigation in India dating back to 1992 and \$4 million was added from acquisitions. \$55 million has been released from the general provision reflecting the benign economic environment, the significant improvement in the Hong Kong bankruptcy situation and other portfolio indicators. At 31 December 2004, the balance of general provision stood at \$335 million, 0.5 per cent of loans and advances to customers (2003: \$425 million, 0.7 per cent).

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.

This covers the risk that:

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

The Group Risk Committee approves country risk policy and procedures and delegates the setting and management of country limits to the Group Head, Credit and Country Risk.

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

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

Cross border assets exclude facilities provided within the Group. They 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 asset is recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

	2004				2003			
	Public sector \$million	Banks \$million	Other \$million	Total \$million	Public sector \$million	Banks \$million	Other \$million	Total \$million
USA	824	745	2,660	4,229	1,436	902	2,149	4,487
Netherlands	–	2,639	406	3,045	–	1,729	275	2,004
Hong Kong	4	199	2,719	2,922	14	112	2,301	2,427
Singapore	–	325	1,939	2,264	–	160	1,509	1,669
India	74	1,132	867	2,073	60	641	1,052	1,753
Korea	47	1,258	698	2,003	3	1,393	475	1,871
China*	101	686	902	1,689	–	–	–	–
France	149	1,243	183	1,575	4	1,529	253	1,786
Germany**	–	–	–	–	–	1,292	315	1,607

* Less than one per cent of total assets at 31 December 2003.

** Less than one per cent of total assets at 31 December 2004.

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 Group Risk Committee, which agrees policies and levels of risk appetite in terms of Value at Risk (VaR). The Group Market Risk Committee provides market risk oversight and guidance on policy settings. Policies cover the trading book of the Group and also market risks within the non-trading books. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy. Group Market Risk approves the limits within delegated authorities and monitors exposures against these limits.

Group Market Risk 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 non-trading books combined at 31 December 2004 was \$15.4 million (2003: \$12.2 million). Interest rate related VaR was \$15.6 million (2003: \$12.2 million) and foreign exchange related VaR was \$3.0 million (2003: \$1.3 million). The total VaR of \$15.4 million recognises offsets between interest rate and foreign exchange risks. Additional information is given in note 52 on page 116.

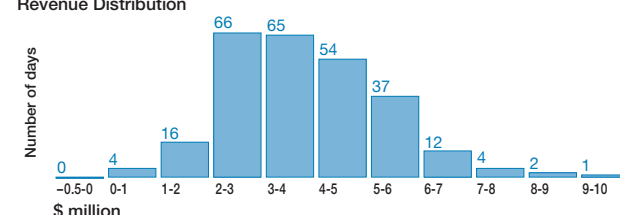
The average total VaR for trading and non-trading books during the year was \$15.8 million (2003: \$13.6 million) with a maximum exposure of \$19.4 million (2003: \$16.0 million).

VaR for interest rate risk in the non-trading books of the Group total \$16.7 million at 31 December 2004 (2003: \$9.5 million). The increase in VaR reflects the rise in interest rates and positional changes.

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

The average daily revenue earned from market risk related activities was \$3.8 million, compared with \$3.5 million during 2003.

Revenue Distribution



Foreign Exchange Exposure

The Group's foreign exchange exposures comprise trading, non-trading and structural foreign currency translation exposures.

Foreign exchange trading exposures are principally derived from customer driven transactions. The average daily revenue from foreign exchange trading businesses during 2004 was \$1.6 million (2003: \$1.3 million).

Interest Rate Exposure

The Group's interest rate exposures comprise trading exposures and non-trading structural interest rate exposures.

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

The average daily revenue from interest rate trading businesses during 2004 was \$2.2 million (2003: \$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 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 and exchange rates.

The Group applies a potential future exposure methodology to manage counterparty credit exposure associated with derivative transactions. This is calculated by taking the cost of replacing the contract, where its mark-to-market value is positive together with an estimate for the potential future change in the market value of the contract, reflecting the volatilities that affect it. The credit risk on contracts with a negative mark-to-market value is restricted to the potential future change in their market value. The credit risk on derivatives is therefore usually small relative to their notional principal values. For an analysis of derivative contracts see notes 47 and 48 on pages 112 to 113.

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 is 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 the Group Asset and Liability Committee (GALCO). This Committee, chaired by the GED Finance and with authority derived from the Board, 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/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 oversees the structural foreign exchange and interest rate exposures that arise within the Group. Policies and terms of reference are set within which Group Corporate Treasury manage these exposures on a day-to-day basis.

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.

An independent Group operational risk function 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.

Business Risk

Business risk is the risk of failing to achieve business targets due to inappropriate strategies, inadequate resources or changes in the economic or competitive environment and is managed through the Group's management processes. Regular reviews of the performance of Group businesses by the Group Management Committee, comprising Group Executive Directors and other senior management are used to assess business risks and agree management action. The reviews include corporate financial performance measures, capital usage, resource utilisation and risk statistics to provide a broad understanding of the current business position.

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 defined as the risk that any action taken by the Group or its employees creates a negative perception in the external market place. This includes the Group's and/or its customers' impact on the environment. The Group Risk Committee examines issues that are considered to have reputational repercussions for the Group and issues guidelines or policies as appropriate. It also delegates responsibilities for the management of legal/regulatory and reputational risk to the business through business risk committees. In Wholesale Banking, potential reputational risks resulting from transactions or policies and procedures are reviewed and actioned through the Wholesale Banking Reputational Risk Committee. Consumer Banking's Product and Reputational Risk Committee provides similar assurance.

Independent Monitoring

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

Hedging Policies

The Group does not generally hedge 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, the management believes that the Group's reserves are sufficient to absorb any foreseeable adverse currency depreciation. The Group also seeks to match its assets denominated in foreign currencies with corresponding liabilities in the same currencies.

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

Capital

The Group believes that being well capitalised is important. The Group Asset and Liability Committee targets Tier 1 and Total capital ratios of 7-9 per cent and 12-14 per cent respectively.

Basel II

The Group has a centrally managed Basel programme with work streams operating in businesses covering both credit and operational risk. Work is well advanced and the Group expects to be in line to gain compliance with the Basel Accord by 1 January 2007.

There is close alignment between the objectives of Basel II and the Group's own best practice goals. As a leading international bank, we are concerned by the potential impact of inconsistent implementation of the Basel Accord cross border and regard this as a key industry issue for Regulators to address.

International Financial Reporting Standards (IFRS)

From 1 January 2005, the Group will be required by European Directives to report its consolidated financial statements under IFRS, as endorsed by the European Union. Our first published results under IFRS will be the 2005 Interim Report. In May 2005 we intend to present to investors and analysts the impact of IFRS on the Group following the restatement of our 2004 financial statements.

The transition to IFRS represents a significant change in our accounting policies. The principal changes are:

- recording all derivatives and certain debt security assets at fair value on the balance sheet;
- recording additional bad debt charges for time-value discount provisions;
- recording interest on a 'level yield' basis;
- recording the cost of share options awarded to employees on a fair value basis;

- ceasing goodwill amortisation;
- dividends proposed but not declared are no longer accrued as a liability;
- grossing up of the balance sheet for items no longer permitted to be netted;
- consolidating certain assets and liabilities previously permitted to be off balance sheet;
- reclassification between liabilities and shareholders' funds of certain preferred securities and shares; and
- deferred tax effect on IFRS adjustments.

IFRS does not change net cash flows or the underlying economics of our business. However, excluding the potential impact of recording all derivatives on balance sheet at fair value, we expect an increase in shareholders' funds, particularly from not accruing dividends until declared. The cost of awarding share options to employees is expected to increase.

The accounting rules for fair valuing all derivatives is expected to cause some degree of earnings volatility in the future. Although the Group will aim to minimise this volatility, our priority will be to ensure risk is managed effectively.

Our expectation is that the impact of IFRS on the Group's regulatory capital will be minimal.

	2004 \$million	2003* \$million
Tier 1 capital:		
Shareholders' funds	8,435	7,529
Minority interests – equity	111	83
Innovative Tier 1 securities	1,246	1,155
Less: restriction on innovative Tier 1 securities	(68)	(160)
Unconsolidated associated companies	30	13
Less: goodwill capitalised	(1,900)	(1,986)
Add: provision for retirement benefits after tax	110	124
Total Tier 1 capital	7,964	6,758
Tier 2 capital:		
Qualifying general provision	335	387
Perpetual subordinated debt	1,961	1,914
Other eligible subordinated debt	3,525	2,898
Restricted innovative Tier 1 securities	68	160
Total Tier 2 capital	5,889	5,359
Investments in other banks	(33)	(742)
Other deductions	(34)	(4)
Total capital	13,786	11,371
Risk weighted assets	71,096	58,371
Risk weighted contingents	21,028	19,791
Total risk weighted assets and contingents	92,124	78,162
Capital ratios:		
Tier 1 capital	8.6%	8.6%
Total capital	15.0%	14.5%
	2004 \$million	2003* \$million
Shareholders' funds		
Equity	7,759	6,880
Non-equity	676	649
	8,435	7,529
Post-tax return on equity (normalised)	20.1%	15.7%

*Comparative restated (see note 54 on page 118).

**Annex D – Unaudited Condensed Consolidated Interim Financial Statements as of and for
the six months ended June 30, 2006**

STANDARD CHARTERED PLC

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2006

	Notes	6 months ended 30.06.06 \$million	6 months ended 30.06.05 \$million	6 months ended 31.12.05 \$million
Interest income		5,970	3,678	5,072
Interest expense		(3,460)	(1,706)	(2,709)
Net interest income		2,510	1,972	2,363
Fees and commission income		1,103	868	972
Fees and commission expense		(209)	(141)	(204)
Net trading income	3	531	409	360
Other operating income	4	177	128	134
		1,602	1,264	1,262
Operating income		4,112	3,236	3,625
Staff costs		(1,381)	(990)	(1,155)
Premises costs		(206)	(181)	(182)
General administrative expenses		(519)	(417)	(603)
Depreciation and amortisation		(119)	(120)	(163)
Operating expenses		(2,225)	(1,708)	(2,103)
Operating profit before impairment losses and taxation		1,887	1,528	1,522
Impairment losses on loans and advances and other credit risk provisions	11	(349)	(194)	(125)
Other impairment		(8)	(1)	(49)
Loss from associates		(3)	–	–
Profit before taxation		1,527	1,333	1,348
Taxation	5	(395)	(367)	(343)
Profit for the period		1,132	966	1,005
Profit attributable to:				
Minority interests	22	29	(5)	30
Parent company's shareholders		1,103	971	975
Profit for the period		1,132	966	1,005
Earnings per share:				
Basic earnings per ordinary share	7	82.8c	74.7c	74.0c
Diluted earnings per ordinary share	7	82.2c	73.2c	73.5c
Dividends per ordinary share:				
Interim dividend declared	6	20.83c	–	–
Interim dividend paid		–	18.94c	–
Final dividend paid		–	–	45.06c
Total interim dividend payable		\$274m	–	–
Total interim dividend paid		–	\$248m	–
Total final dividend paid		–	–	\$595m

STANDARD CHARTERED PLC

Condensed Consolidated Interim Balance Sheet As at 30 June 2006

	Notes	30.06.06 \$million	*30.06.05 \$million	31.12.05 \$million
Assets				
Cash and balances at central banks		11,813	5,667	8,012
Financial assets held at fair value through profit or loss	9	13,082	8,459	10,333
Derivative financial instruments	10	12,721	10,704	9,370
Loans and advances to banks	11	16,750	19,874	21,701
Loans and advances to customers	11	119,550	106,510	111,791
Investment securities	13	46,037	38,334	37,863
Interests in associates		206	–	128
Goodwill and intangible assets		4,459	4,359	4,321
Property, plant and equipment		1,767	1,615	1,644
Deferred tax assets		492	392	498
Other assets		7,653	6,820	7,163
Prepayments and accrued income		3,618	1,909	2,272
Total assets		238,148	204,643	215,096
Liabilities				
Deposits by banks	14	21,994	20,958	18,834
Customer accounts	15	130,176	107,056	119,931
Financial liabilities at fair value through profit or loss	8	8,420	5,820	6,293
Derivative financial instruments	10	13,390	10,388	9,864
Debt securities in issue	16	24,953	26,761	25,913
Current tax liabilities		410	275	283
Other liabilities	17	11,198	9,844	8,446
Accruals and deferred income		2,430	1,854	2,319
Provisions for liabilities and charges		56	81	55
Retirement benefit obligations	18	466	535	476
Subordinated liabilities and other borrowed funds	19	10,805	8,537	10,349
Total liabilities		224,298	192,109	202,763
Equity				
Share capital and share premium	20	5,720	5,614	5,638
Reserves and retained earnings	21	7,630	5,609	6,244
Total parent company shareholders' equity		13,350	11,223	11,882
Minority interests	22	500	1,311	451
Total equity		13,850	12,534	12,333
Total equity and liabilities		238,148	204,643	215,096

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB and the re-presentation of balances to conform with that used as at 31 December 2005; specifically, financial assets and liabilities held at fair value, other than derivatives, have been presented in single lines under assets and liabilities (see note 29).

STANDARD CHARTERED PLC

Condensed Consolidated Interim Statement of Recognised Income and Expense

For the six months ended 30 June 2006

	Notes	6 months ended 30.06.06 \$million	6 months ended 30.06.05 \$million	6 months ended 31.12.05 \$million
Exchange differences on translation of foreign operations		364	(71)	(19)
Actuarial gains/(losses) on retirement benefits		68	(36)	(114)
Available-for-sale investments:				
Valuation gains/(losses) taken to equity		134	12	(5)
Transferred to income on disposal/redemption		(52)	(74)	(33)
Cash flow hedges:				
Gains/(losses) taken to equity		45	(28)	(37)
Losses/(gains) transferred to income for the period		6	(19)	(1)
Deferred tax on items recognised directly in equity		(56)	37	104
Other		3	(37)	38
		512	(216)	(67)
Profit for the period		1,132	966	1,005
Total recognised income and expenses for the period		1,644	750	938

Effect of change in accounting policy

Effect of adopting IAS 32 and 39 on 1 January 2005:

Available-for-sale reserve

Cash flow hedge reserve

Retained earnings

21

73
42
36
151
901

Attributable to:

Parent company shareholders

Minority interests

21

22

1,615

29

906

(5)

908

30

1,644

901

938

STANDARD CHARTERED PLC

Condensed Consolidated Interim Cash Flow Statement For the six months ended 30 June 2006

	6 months ended 30.06.06 \$million	6 months ended *30.06.05 \$million	6 months ended 31.12.05 \$million
Cash flow from operating activities			
Profit before taxation	1,527	1,333	1,348
Adjustment for items not involving cash flow or shown separately			
Depreciation and amortisation of property, plant and equipment, and intangibles	119	120	163
Gain on disposal of property plant and equipment	(2)	(1)	2
Gain on disposal of investment securities	(52)	(74)	(33)
Amortisation of investments	(21)	55	(38)
Impairment losses	349	194	125
Other impairment	8	1	49
Assets written off, net of recoveries	(371)	(287)	(431)
Increase in accruals and deferred income	47	577	375
Increase in prepayments and accrued income	(1,282)	(918)	(330)
Net increase in mark-to-market adjustment	152	341	598
Interest paid on subordinated loan capital	285	165	223
UK and overseas taxes paid	(369)	(278)	(333)
Net increase in treasury bills and other eligible bills	(460)	(170)	(516)
Net increase in loans and advances to banks and customers	(4,328)	(3,944)	(1,786)
Net increase in deposits from banks, customer accounts and debt securities in issue	10,019	8,633	10,363
Net increase in trading securities	(2,127)	(361)	(1,133)
Net decrease in other accounts	(254)	(2,486)	(1,496)
Net cash from operating activities	3,240	2,900	7,150
Net cash flows from investing activities			
Purchase of property plant and equipment	(112)	(37)	(98)
Acquisition of investment in subsidiaries, net of cash acquired	–	(1,093)	–
Acquisition of treasury bills and other eligible bills	(12,201)	(7,552)	(5,891)
Acquisition of debt securities	(24,471)	(16,573)	(17,082)
Acquisition of equity shares	(109)	(450)	(208)
Disposal of property plant and equipment	1	–	8
Disposal and maturity of treasury bills	10,853	5,625	6,974
Disposal and maturity of debt securities	18,872	19,497	16,251
Disposal of equity shares	46	95	256
Net cash (used in)/from investing activities	(7,121)	(488)	210
Net cash (outflow)/inflow from financing activities			
Issue of ordinary share capital	3	1,975	25
Purchase of own shares, net of exercise, for share option awards	96	(167)	94
Interest paid on subordinated loan capital	(374)	(206)	(91)
Gross proceeds from issue of subordinated loan capital	550	3,362	512
Repayment of subordinated liabilities	(340)	(731)	(295)
Dividends and payments to minority interests and preference shareholders	(43)	(104)	(69)
Dividends paid to ordinary shareholders	(343)	(474)	(211)
Net cash (used in)/from financing activities	(451)	3,655	(35)
Net (decrease)/increase in cash and cash equivalents	(4,332)	6,067	7,325
Cash and cash equivalents at beginning of period	35,226	22,112	27,810
Effect of exchange rate changes on cash and cash equivalents	493	(369)	91
Cash and cash equivalents at end of period (note 23)	31,387	27,810	35,226

* Restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB and the re-presentation of balances to conform with that used as at 31 December 2005 (see note 29).

STANDARD CHARTERED PLC - NOTES

1. Basis of preparation

The Group condensed interim 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.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2005.

These condensed consolidated interim financial statements were approved by the Board of Directors on 8 August 2006.

Except as noted below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2005.

On 1 January 2006 the Group retrospectively adopted:

- Amendments to IAS 39 and IFRS 4 – Financial Guarantee Contracts; and
- IFRIC Interpretation 4, 'Determining whether an arrangement contains a lease'

neither of which had a material impact on the Group's consolidated financial statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

The balance sheet as at 30 June 2005 has been restated as explained in note 29, to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB and the representation of balances to conform with that used as at 31 December 2005.

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

	30.06.06				30.06.05			
	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Internal income	(12)	12	–	–	(7)	7	–	–
Net interest income	1,665	845	–	2,510	1,256	716	–	1,972
Other income	542	1,060	–	1,602	474	790	–	1,264
Operating income	2,195	1,917	–	4,112	1,723	1,513	–	3,236
Operating expenses	(1,210)	(1,015)	–	(2,225)	(888)	(820)	–	(1,708)
Operating profit before impairment losses	985	902	–	1,887	835	693	–	1,528
Impairment (losses)/releases on loans and advances	(405)	56	–	(349)	(193)	(1)	–	(194)
Other impairment	–	(8)	–	(8)	–	(1)	–	(1)
Loss from associates	–	–	(3)	(3)	–	–	–	–
Operating profit before taxation	580	950	(3)	1,527	642	691	–	1,333
Total assets employed	73,008	164,648	*492	238,148	68,361	135,890	*392	204,643
Total liabilities employed	88,214	135,674	*410	224,298	66,660	125,174	*275	192,109
Total risk weighted assets and contingents	55,037	80,061	–	135,098	51,726	69,805	–	121,531
Other segment items:								
Capital Expenditure	120	47	–	167	43	41	–	84
Depreciation	45	15	–	60	32	27	–	59
Amortisation of intangible assets	25	34	–	59	29	32	–	61

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

STANDARD CHARTERED PLC – NOTES continued

2. Segmental Information continued

	31.12.05			
	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Internal income [#]	(27)	27	–	–
Net interest income	1,660	703	–	2,363
Other income	446	816	–	1,262
Operating income	2,079	1,546	–	3,625
Operating expenses	(1,213)	(890)	–	(2,103)
Operating profit before impairment losses	866	656	–	1,522
Impairment (losses)/releases on loans and advances	(232)	107	–	(125)
Other impairment	(3)	(10)	(36)	(49)
Operating profit before taxation	631	753	(36)	1,348
Total assets employed	74,134	140,464	*498	215,096
Total liabilities employed	79,008	123,472	*283	202,763
Total risk weighted assets and contingents	52,054	73,870	–	125,924
Other segment items:				
Capital Expenditure	71	68	–	139
Depreciation	36	30	–	66
Amortisation of intangible assets	45	52	–	97

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

Internal income by geographies has been restated as the Group has refined its method for charging and allocating expense for capital in 2006. The restatement has no effect on total income. See note 29.

STANDARD CHARTERED PLC – NOTES 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 SCFB on 15 April 2005, Korea has been identified as a separately reportable geographic segment. In the first half of 2005, 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 with Middle East and Other South Asia.

	30.06.06									
	Asia Pacific						Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million				
Internal income	(13)	1	1	26	5	(4)	(2)	(7)	(7)	–
Net interest income	542	164	122	522	354	210	287	196	113	2,510
Fees and commissions income, net	198	78	23	68	130	101	141	77	78	894
Net trading income	57	32	33	51	83	59	53	47	116	531
Other operating income	10	15	9	67	10	14	3	2	47	177
Operating income	794	290	188	734	582	380	482	315	347	4,112
Operating expenses	(344)	(137)	(79)	(460)	(336)	(160)	(225)	(201)	(283)	(2,225)
Operating profit before impairment losses	450	153	109	274	246	220	257	114	64	1,887
Impairment (losses)/releases on loans and advances	8	(19)	(12)	(40)	(277)	(7)	(14)	(17)	29	(349)
Other impairment	–	–	–	–	–	–	–	(6)	(2)	(8)
Loss from associates	–	–	–	–	(3)	–	–	–	–	(3)
Operating profit before taxation	458	134	97	234	(34)	213	243	91	91	1,527
Loans and advances to customers – average	22,925	12,434	8,389	38,616	11,898	5,647	8,237	2,319	9,881	120,346
Net interest margins (%)	2.3	1.2	2.2	1.8	2.8	3.6	3.5	6.6	0.4	2.5
Loans and advances to customers – period end	22,188	13,169	9,007	38,724	11,704	5,695	8,143	2,256	9,259	120,145
Loans and advances to banks – period end	3,131	1,155	153	1,835	3,433	285	1,501	563	5,586	17,642
Total assets employed*	45,103	27,546	11,690	65,927	28,425	13,227	14,406	6,957	63,432	276,713
Total risk weighted assets and contingents	21,938	13,912	5,503	34,610	16,386	7,549	11,782	2,955	23,328	137,963
Capital expenditure	72	23	1	8	11	7	13	4	28	167

* Total assets employed includes intra-group items of \$39,057 million and excludes deferred tax assets of \$492 million.

STANDARD CHARTERED PLC – NOTES continued

2. Segmental Information continued

	30.06.05								
	Asia Pacific							Americas UK & Group Head Office	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & S Asia \$million	Africa \$million	\$million
Internal income*	25	2	1	(3)	6	(5)	–	(8)	(18)
Net interest income	447	137	106	238	317	161	225	188	1,972
Fees and commissions income, net	171	63	30	29	108	73	112	76	727
Net trading income	81	54	17	34	83	41	46	(2)	409
Other operating income	26	5	2	11	10	32	4	1	128
Operating income*	750	261	156	309	524	302	387	255	3,236
Operating expenses	(317)	(123)	(73)	(167)	(296)	(143)	(158)	(195)	(1,708)
Operating profit before impairment losses	433	138	83	142	228	159	229	60	1,528
Impairment/(losses) releases on loans and advances	(69)	(34)	(14)	(34)	11	(23)	(15)	(30)	(194)
Other impairment	(1)	–	–	–	–	1	–	–	(1)
Operating profit before taxation	363	104	69	108	239	137	214	30	1,333
Loans and advances to customers – average	22,363	12,012	6,245	14,684	9,172	5,060	7,600	2,038	88,283
Net interest margins (%)	2.2	1.2	2.3	1.9	3.2	3.3	3.3	7.3	0.6
Loans and advances to customers – period end	22,102	12,064	6,451	33,007	10,142	5,138	7,706	2,014	107,381
Loans and advances to banks – period end	3,667	2,956	474	2,804	1,596	195	1,166	199	20,955
Total assets employed**	54,971	23,885	9,345	52,240	23,619	10,806	15,410	6,225	254,358
Total risk weighted assets and contingents	20,820	13,289	4,773	28,510	14,883	6,276	8,959	2,410	123,945
Capital expenditure	14	15	2	16	13	7	4	5	84

* Internal income by geographies has been restated as the Group has refined its method for charging and allocating expense for capital in 2006. The restatement has no effect on total income. See note 29.

** Total assets employed includes intra-group items of \$50,107 million and excludes deferred tax assets of \$392 million.

STANDARD CHARTERED PLC – NOTES continued

2. Segmental Information continued

	31.12.05									
	Asia Pacific								Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million		
Internal income*	(4)	5	5	2	7	(2)	5	(6)	(12)	-
Net interest income	488	133	108	588	309	176	253	192	116	2,363
Fees and commissions income, net	181	76	30	16	117	78	122	75	73	768
Net trading income	20	30	27	29	82	31	43	33	65	360
Other operating income	49	9	9	13	18	8	2	4	22	134
Operating income*	734	253	179	648	533	291	425	298	264	3,625
Operating expenses	(332)	(123)	(77)	(465)	(314)	(163)	(181)	(204)	(244)	(2,103)
Operating profit before impairment losses	402	130	102	183	219	128	244	94	20	1,522
Impairment (losses)/releases on loans and advances	(48)	(9)	(16)	(27)	(60)	(27)	24	(13)	51	(125)
Other impairment	-	-	-	-	-	-	-	(47)	(2)	(49)
Operating profit before taxation	354	121	86	156	159	101	268	34	69	1,348
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 (%)	2.1	1.1	2.2	2.1	2.8	3.4	3.3	7.5	0.4	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	22	28	4	26	21	11	7	8	12	139

* Internal income by geographies has been restated as the Group has refined its method for charging and allocating expense for capital in 2006. The restatement has no effect on total income. See note 29.

** Total assets employed includes intra-group items of \$19,960 million and excludes deferred tax assets of \$498 million.

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 average risk weighted assets. In SCFB, expense allocations have been based on an estimate of the cost incurred supporting the 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 \$2,865 million (30 June 2005: \$2,414 million 31 December 2005: \$2,002 million) of balances which are netted in calculating capital ratios.

In 2005 other impairment includes a provision made in respect of exposures in Zimbabwe.

STANDARD CHARTERED PLC – NOTES continued

2. Segmental Information continued

The following tables set out the structure of the Group's deposits by principal geographic region and business where it operates at 30 June 2006, 30 June 2005 and 31 December 2005.

By geographic segment

	30.06.06									
	Asia Pacific					India \$million	Middle East & S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Non interest bearing current and demand accounts	2,804	796	1,277	191	2,718	1,689	3,394	1,602	445	14,916
Interest bearing current and demand accounts	14,056	3,531	195	15,762	4,109	19	1,224	1,275	5,322	45,493
Savings deposits	8	1,617	493	13	2,991	1,334	1,433	389	–	8,278
Time deposits	19,633	9,881	5,026	16,632	9,267	3,780	5,588	1,517	11,361	82,685
Other deposits	31	78	829	691	788	464	366	51	937	4,235
Total	36,532	15,903	7,820	33,289	19,873	7,286	12,005	4,834	18,065	155,607
Deposits by banks	669	1,796	861	6,257	4,807	1,281	1,676	362	6,015	23,724
Customer accounts	35,863	14,107	6,959	27,032	15,066	6,005	10,329	4,472	12,050	131,883
	36,532	15,903	7,820	33,289	19,873	7,286	12,005	4,834	18,065	155,607
Debt securities in issue	585	1,395	918	20,151	721	802	–	127	2,487	27,186
Total	37,117	17,298	8,738	53,440	20,594	8,088	12,005	4,961	20,552	182,793

	30.06.05									
	Asia Pacific					India \$million	Middle East & S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Non interest bearing current and demand accounts*	1,471	713	983	175	1,532	1,796	2,341	1,168	1,004	11,183
Interest bearing current and demand accounts*	14,024	3,687	120	8,584	2,537	3	1,076	1,472	3,542	35,045
Savings deposits	6	849	435	19	2,881	1,263	1,411	379	–	7,243
Time deposits	17,152	10,970	3,839	11,176	7,237	3,411	5,270	771	11,938	71,764
Other deposits	28	42	787	1,480	1,239	8	497	75	1,032	5,188
Total	32,681	16,261	6,164	21,434	15,426	6,481	10,595	3,865	17,516	130,423
Deposits by banks	1,544	3,654	1,374	1,960	4,023	1,045	2,016	122	5,915	21,653
Customer accounts	31,137	12,607	4,790	19,474	11,403	5,436	8,579	3,743	11,601	108,770
	32,681	16,261	6,164	21,434	15,426	6,481	10,595	3,865	17,516	130,423
Debt securities in issue	963	790	727	19,906	660	758	–	79	4,072	27,955
Total	33,644	17,051	6,891	41,340	16,086	7,239	10,595	3,944	21,588	158,378

* Restated to present on a consistent basis.

STANDARD CHARTERED PLC – NOTES continued

2. Segmental Information continued

	31.12.05									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Non interest bearing current and demand accounts*	2,998	709	1,120	216	1,343	1,928	2,855	1,359	473	13,001
Interest bearing current and demand accounts*	12,753	3,355	148	13,554	3,612	3	1,110	1,264	4,534	40,333
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

* Restated to present on a consistent basis.

3. Net Trading Income

	6 months ended 30.06.06 \$million	6 months ended 30.06.05 \$million	6 months ended 31.12.05 \$million
Gains less losses on foreign currency	311	302	311
Gains less losses on trading securities	19	(18)	(1)
Other trading profits	201	125	50
	531	409	360

4. Other Operating Income

	6 months ended 30.06.06 \$million	6 months ended 30.06.05 \$million	6 months ended 31.12.05 \$million
Other operating income includes:			
Gains less losses on disposal of available-for-sale financial assets	52	74	33
Dividend income	33	9	53

STANDARD CHARTERED PLC – NOTES continued

5. Taxation

Analysis of taxation charge in the period:

	6 months ended 30.06.06 \$million	6 months ended 30.06.05 \$million	6 months ended 31.12.05 \$million
The charge for taxation based upon the profits for the period comprises:			
United Kingdom corporation tax at 30% (30 June 2005, 31 December 2005: 30%):			
Current tax on income for the period	93	158	168
Adjustments in respect of prior periods	(114)	–	4
Double taxation relief	(88)	(150)	(158)
Foreign tax:			
Current tax on income for the period	505	314	357
Adjustments in respect of prior periods	41	(8)	(10)
Total current tax	437	314	361
Deferred tax:			
Origination/reversal of temporary differences	(42)	53	(18)
Tax on profits on ordinary activities	395	367	343
Effective tax rate	25.9%	27.5%	25.5%

Overseas taxation includes taxation on Hong Kong profits of \$115 million (30 June 2005: \$78 million, 31 December 2005: \$131 million) provided at a rate of 17.5 per cent (30 June 2005: 17.5 per cent, 31 December 2005: 17.5 per cent) on the profits assessable in Hong Kong.

6. Dividends

Ordinary equity shares

Dividends are recorded in the period in which they are declared. The 2005 interim dividend of 18.94 cents per ordinary was paid to eligible shareholders on 14 October 2005 and the final dividend of 45.06 cents per ordinary share was paid to eligible shareholders on 12 May 2006.

The 2006 interim dividend of 20.83 cents per share will be paid in either sterling, Hong Kong dollars or US dollars on 11 October 2006 to shareholders on the UK register of members at the close of business on 18 August 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 18 August 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 interim cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 1 September 2006.

Preference Shares	6 months ended 30.06.06 \$million	6 months ended 30.06.05 \$million	6 months ended 31.12.05 \$million
Non-cumulative irredeemable preference shares:			
7 ³ / ₈ per cent preference shares of £1 each*	7	7	7
8 ¹ / ₄ per cent preference shares of £1 each*	7	7	8
Non-cumulative redeemable preference shares:			
8.9 per cent preference shares of \$5 each	15	15	14

* Instruments classified as liabilities with dividends recorded as interest expense

STANDARD CHARTERED PLC – NOTES continued

7. Earnings Per Ordinary Share

	30.06.06			30.06.05			31.12.05		
	Profit \$million	Weighted average number of shares ('000)	Per share amount cents	Profit \$million	Weighted average number of shares ('000)	Per share amount cents	Profit \$million	Weighted average number of shares ('000)	Per share amount cents
Basic earnings per ordinary share	1,088	1,314,467	82.8	956	1,279,432	74.7	961	1,297,821	74.0
Effect of dilutive potential ordinary shares:									
Convertible bonds	–	–		7	20,578		–	–	
Options	–	9,666		–	15,366		–	9,418	
Diluted earnings per share	1,088	1,324,133	82.2	963	1,315,376	73.2	961	1,307,239	73.5

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.

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Profit attributable to ordinary shareholders	1,088	956	961
Amortisation of intangible assets arising on business combinations	20	5	27
Other impairment	–	1	41
Premium and costs paid on repurchase of subordinated debt	4	–	–
Tax on normalised items	(7)	–	(7)
Normalised earnings	1,105	962	1,022
Normalised earnings per ordinary share (cents)	84.1	75.2	78.7

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.

STANDARD CHARTERED PLC – NOTES continued

8. Financial Instruments Classification Summary

Financial instruments are classified 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 combines financial instruments that are held at their fair value

through profit or loss and subdivided between those assets and liabilities held for trading purposes and those that the Group has elected to hold at fair value.

The Group's classification of its principal financial assets and liabilities (excluding derivatives) is summarised below:

	Trading \$million	Designated at fair value through profit or loss \$million	Available- for-sale \$million	Loans and receivables \$million	Held-to- maturity \$million	Total \$million
Loans and advances to banks	892	–	99	16,651	–	17,642
Loans and advances to customers	435	160	129	119,421	–	120,145
Treasury bills and other eligible bills	2,861	637	11,966	–	–	15,464
Debt securities	7,626	315	31,010	1,788	164	40,903
Equity shares	74	82	1,109	–	–	1,265
Total assets at 30 June 2006	11,888	1,194	44,313	137,860	164	195,419
Total assets at 30 June 2005	8,264	195	37,285	126,818	615	173,177
Total assets at 31 December 2005	9,441	892	36,519	134,621	215	181,688

	Trading \$million	Designated at fair value \$million	Total held at fair value \$million	Amortised cost \$million	Total \$million
Deposits by banks	1,473	257	1,730	21,994	23,724
Customer accounts	593	1,114	1,707	130,176	131,883
Debt securities in issue	1,623	610	2,233	24,953	27,186
Short positions	2,750	–	2,750	–	2,750
Total liabilities at 30 June 2006	6,439	1,981	8,420	177,123	185,543
Total liabilities at 30 June 2005	4,905	915	5,820	154,775	160,595
Total liabilities at 31 December 2005	4,909	1,384	6,293	164,678	170,971

STANDARD CHARTERED PLC – NOTES continued

9. Financial Assets Held at Fair Value through Profit or Loss

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Loans and advances to banks	892	1,081	1,258
Loans and advances to customers	595	871	386
Treasury bills and other eligible bills	3,498	1,905	2,715
Debt securities	7,941	4,590	5,856
Equity shares	156	12	118
	13,082	8,459	10,333
Debt securities			
	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Issued by public bodies:			
Government securities	2,326	1,769	1,632
Other public sector securities	–	7	–
	2,326	1,776	1,632
Issued by banks:			
Certificates of deposit	605	626	811
Other debt securities	1,992	764	1,028
	2,597	1,390	1,839
Issued by corporate entities and other issuers:			
Other debt securities	3,018	1,424	2,385
Total debt securities	7,941	4,590	5,856
Of which:			
Listed on a recognised UK exchange	1,241	249	537
Listed elsewhere	2,284	950	1,526
Unlisted	4,416	3,391	3,793
	7,941	4,590	5,856
Equity securities			
Unlisted	136	–	118
Listed	20	12	–
	156	12	118

STANDARD CHARTERED PLC – NOTES continued

10. Derivative Financial Instruments

Derivatives are financial instruments that derive their value from changes in response to changes in factors such as 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.

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.

	30.06.06			30.06.05		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<i>Total derivatives</i>						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	456,951	6,027	7,348	440,305	4,700	4,522
Currency swaps and options	259,787	2,290	1,408	152,627	2,286	2,367
Exchange traded futures and options	–	–	–	127	1	1
	716,738	8,317	8,756	593,059	6,987	6,890
Interest rate derivative contracts:						
Swaps	592,685	4,084	4,279	440,302	3,578	3,275
Forward rate agreements and options	69,436	138	216	94,913	92	167
Exchange traded futures and options	204,409	78	49	270,262	–	–
	866,530	4,300	4,544	805,477	3,670	3,442
Equity and stock index options	356	4	3	333	3	3
Credit derivatives	18,039	43	45	8,696	39	48
Commodity derivative contracts	5,020	57	42	5,699	5	5
Total derivatives	1,606,683	12,721	13,390	1,413,264	10,704	10,388
Effect of netting		(10,762)			(7,164)	
Net credit risk on derivatives		1,959			3,540	

	31.12.05		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<i>Total derivatives</i>			
Foreign exchange derivative contracts:			
Forward foreign exchange contracts	326,053	5,392	5,884
Currency swaps and options	175,121	351	487
Exchange traded futures and options	–	–	–
	501,174	5,743	6,371
Interest rate derivative contracts:			
Swaps	471,652	3,452	3,239
Forward rate agreements and options	68,015	72	160
Exchange traded futures and options	117,026	43	27
	656,693	3,567	3,426
Equity and stock index options	379	3	3
Credit derivatives	9,374	45	52
Commodity derivative contracts	4,642	12	12
Total derivatives	1,172,262	9,370	9,864
Effect of netting		(6,271)	
Net credit risk on derivatives		3,099	

STANDARD CHARTERED PLC – NOTES continued

11. Loans and Advances

	30.06.06		30.06.05		31.12.05	
	Loans to banks \$million	Loans to customers \$million	Loans to banks \$million	Loans to customers \$million	Loans to banks \$million	Loans to customers \$million
Loans and advances	17,654	121,894	21,003	109,378	22,982	113,908
Individual impairment provision	(11)	(1,295)	(48)	(1,683)	(22)	(1,364)
Portfolio impairment provision	(1)	(454)	–	(314)	(1)	(367)
	17,642	120,145	20,955	107,381	22,959	112,177
Of which: loans and advances held at fair value through profit or loss	(892)	(595)	(1,081)	(871)	(1,258)	(386)
	16,750	119,550	19,874	106,510	21,701	111,791

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 mortgage loans to Hong Kong residents of approximately \$11.3 billion (30 June 2005: \$12.6 billion, 31 December 2005: \$12.1 billion), and Korea residents of approximately \$23.2 billion (30 June 2005: \$18.8 billion, 31 December 2005: \$22.5 billion).

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Provisions held at beginning of period	1,754	1,782	2,045
Exchange translation differences	49	(28)	3
Acquisitions	–	407	–
Amounts written off	(436)	(352)	(519)
Recoveries of amounts previously written off	65	65	88
Discount unwinding	(25)	(23)	(25)
Other	(5)	–	24
New provisions	597	438	477
Recoveries/provisions no longer required	(238)	(244)	(339)
Net charge against profit*	359	194	138
Provisions held at end of period	1,761	2,045	1,754

* The net charge of \$359 million (30 June 2005: \$194 million, 31 December 2005: \$138 million) comprises \$273 million (30 June 2005: \$164 million, 31 December 2005: \$91 million) individual impairment charge and \$86 million (30 June 2005: \$30 million, 31 December 2005: \$47 million) portfolio impairment charge. The charge excludes provision releases for credit commitments of \$10 million for six months ended 30 June 2006 (30 June 2005: \$nil, 31 December 2005: \$13 million). The total impairment charge on loans and advances and other credit risks is \$349 million (30 June 2005: \$194 million, 31 December 2005: \$125 million).

The provision of \$1,761 million (30 June 2005: \$2,045 million, 31 December 2005: \$1,754 million) held at 30 June 2006 comprises \$1,306 million (30 June 2005: \$1,731 million, 31 December 2005: \$1,386 million) individual impairment provision and \$455 million (30 June 2005: \$314 million, 31 December 2005: \$368 million) portfolio impairment provision.

STANDARD CHARTERED PLC – NOTES continued

12. Non-Performing Loans and Advances

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Non-performing loans and advances	2,423	3,017	2,694
Impairment provisions	(1,761)	(2,045)	(1,754)
	662	972	940

Net non-performing loans and advances comprises loans and advances to banks \$8 million (30 June 2005: \$34 million, 31 December 2005: \$24 million) and loans and advances to customers \$654 million (30 June 2005: \$938 million, 31 December 2005: \$916 million).

Impairment provisions cover 73 per cent of non-performing lending (30 June 2005: 68 per cent, 31 December 2005: 65 per cent). The impairment provisions above include portfolio provisions.

13. Investment Securities

	30.06.06					
	Debt Securities			Equity securities	Treasury bills	Total
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	\$million	\$million	\$million
Issued by public bodies:						
Government securities	164	10,237	–			
Other public sector securities	–	1,366	–			
	164	11,603	–			
Issued by banks:						
Certificates of deposit	–	7,682	1,423			
Other debt securities	–	8,467	8			
	–	16,149	1,431			
Issued by corporate entities and other issuers:						
Other debt securities	–	3,258	357			
	–	3,258	357			
Total debt securities	164	31,010	1,788			
Listed on a recognised UK exchange	–	5,702	7	21	–	5,730
Listed elsewhere	134	10,170	–	424	7,452	18,180
Unlisted	30	15,138	1,781	664	4,514	22,127
	164	31,010	1,788	1,109	11,966	46,037

STANDARD CHARTERED PLC – NOTES continued

13. Investment Securities continued

30.06.05						
	Debt Securities			Equity securities \$million	Treasury bills \$million	Total \$million
	Held-to- maturity \$million	Available- for-sale \$million	Loans and receivables \$million			
Issued by public bodies:						
Government securities	615	8,094	–			
Other public sector securities	–	1,815	–			
	615	9,909	–			
Issued by banks:						
Certificates of deposit	–	6,596	–			
Other debt securities	–	6,025	–			
	–	12,621	–			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,687	455			
	–	2,687	455			
Total debt securities	615	25,217	455			
Listed on a recognised UK exchange	388	4,681	–	–	–	5,069
Listed elsewhere	5	7,003	–	504	7,112	14,624
Unlisted	222	13,533	455	429	4,002	18,641
	615	25,217	455	933	11,114	38,334

31.12.05						
	Debt Securities			Equity securities \$million	Treasury bills \$million	Total \$million
	Held-to- maturity \$million	Available- for-sale \$million	Loans and receivables \$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

STANDARD CHARTERED PLC - NOTES continued

13. Investment Securities continued

The change in the carrying amount of investment securities comprised:

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Opening	37,863	31,828	38,334
Exchange translation differences	1,009	(1,048)	(131)
Acquisitions	–	8,238	–
Additions	36,781	24,575	23,181
Maturities and disposals	(29,771)	(25,217)	(23,481)
Impairments	–	1	(34)
Changes in fair value	134	12	(44)
Amortisation of discounts and premiums	21	(55)	38
Closing	46,037	38,334	37,863

At 30 June 2006, unamortised premiums on debt securities held for investment purposes amounted to \$134 million (30 June 2005: \$177 million, 31 December 2005: \$59 million) and unamortised discounts amounted to \$110 million (30 June 2005: \$64 million, 31 December 2005: \$80 million).

The valuation of listed securities and of unlisted securities is at fair value. Income from listed equity shares amounted to \$2 million (30 June 2005: \$4 million, 31 December 2005: \$28 million) and income from unlisted equity shares amounted to \$31 million (30 June 2005: \$5 million, 31 December 2004: \$25 million).

14. Deposits by Banks

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Deposits by banks	21,994	20,958	18,834
Deposits by banks included within:			
Financial liabilities at fair value through profit or loss (note 8)	1,730	695	1,439
	23,724	21,653	20,273

15. Customer Accounts

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Customer accounts	130,176	107,056	119,931
Customer accounts included within:			
Financial liabilities at fair value through profit or loss (note 8)	1,707	1,304	1,008
	131,883	108,360	120,939

16. Debt Securities in Issue

	30.06.06			30.06.05		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	12,522	12,431	24,953	15,356	11,405	26,761
Debt securities in issue within:						
Financial liabilities at fair value through profit or loss (note 8)	326	1,907	2,233	249	824	1,073
	12,848	14,338	27,186	15,605	12,229	27,834

STANDARD CHARTERED PLC – NOTES continued

16. Debt Securities in Issue continued

	31.12.05		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	14,179	11,734	25,913
Debt securities in issue within:			
Financial liabilities at fair value through profit or loss (note 8)	201	1,300	1,501
	14,380	13,034	27,414

17. Other Liabilities

Other liabilities include Hong Kong currency notes in circulation of \$2,558 million (30 June 2005: \$2,499 million, 31 December 2005: \$2,492 million) which are secured by Hong Kong SAR Government certificates of indebtedness of the same amount included in other assets.

18. Retirement Benefit Obligations

Retirement benefit obligations comprise:

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Total market value of assets	2,036	1,836	1,930
Present value of the schemes' liabilities	(2,493)	(2,354)	(2,395)
Defined benefit schemes obligation	(457)	(518)	(465)
Defined contribution schemes	(9)	(17)	(11)
Net book amount	(466)	(535)	(476)

Retirement benefit charge comprises:

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Defined benefit schemes	43	26	40
Defined contribution schemes	32	23	42
	75	49	82

STANDARD CHARTERED PLC - NOTES continued

18. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Current service cost	41	30	42
Past service cost	9	–	–
Gain on settlement and curtailments	(8)	–	(1)
Expected return on pension scheme assets, less interest obligation	1	(4)	(1)
Total charge to profit before deduction of tax	43	26	40
Actual less expected return on assets	25	(28)	(83)
(Gain)/loss on change of assumptions	(93)	64	197
(Gain)/loss recognised in Statement of Recognised Income and Expenses before tax	(68)	36	114
Deferred taxation	20	(11)	(34)
(Gain)/loss after tax	(48)	25	80

19. Subordinated Liabilities and Other Borrowed Funds

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Dated subordinated loan capital	7,698	5,909	7,292
Undated subordinated loan capital	2,760	2,278	2,714
Other undated borrowings	347	350	343
Total	10,805	8,537	10,349

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 subordinated loan capital and other borrowings \$5,949 million is at fixed interest rates (30 June 2005: \$5,414 million, 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

capital. In June 2006, the Group bought back an additional \$7 million 5.75 per cent Upper Tier 2 capital.

On 11 May 2006 the Group issued £300 million Undated Callable Step Up Preferred Securities Innovative Tier 1 Capital at an issue price of 116.801 per cent. Interest is payable annually at a fixed rate of 8.103 per cent.

STANDARD CHARTERED PLC - NOTES continued

20. Share Capital and Share Premium

	Number of ordinary shares (millions)	Ordinary share capital \$million	Preference share capital \$million	Share premium account \$million	Total \$million
At 1 January 2005	1,179	590	2	2,835	3,427
Capitalised on scrip dividend	3	1	–	(1)	–
Shares issued, net of expenses	129	65	–	2,122	2,187
At 30 June 2005	1,311	656	2	4,956	5,614
Capitalised on scrip dividend	1	1	–	(1)	–
Shares issued, net of expenses	4	1	–	23	24
At 31 December 2005	1,316	658	2	4,978	5,638
Capitalised on scrip dividend	10	5	–	(5)	–
Shares issued, net of expenses	4	2	–	80	82
At 30 June 2006	1,330	665	2	5,053	5,720

On 12 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. A further 428,962 shares were issued for the purposes of the employee share schemes.

21. Reserves and Retained Earnings

	Capital Reserve \$million	Capital Redemption Reserve \$million	Available- for-sale reserve \$million	Cash flow hedge reserve \$million	Premises revaluation reserve \$million	Translation reserve \$million	Retained earnings \$million	Total \$million
At 1 January 2005	5	11	–	–	76	96	5,115	5,303
Effect of adopting IAS 32 and 39	–	–	73	42	–	–	36	151
At 1 January 2005 as restated	5	11	73	42	76	96	5,151	5,454
Recognised income and expenses	–	–	(54)	(29)	–	(71)	909	755
Net own shares adjustment	–	–	–	–	–	–	(167)	(167)
Share option expense and related taxation	–	–	–	–	–	–	56	56
Dividends net scrip	–	–	–	–	–	–	(489)	(489)
At 30 June 2005	5	11	19	13	76	25	5,460	5,609
Recognised income and expenses	–	–	4	(33)	–	(19)	956	908
Net own shares adjustment	–	–	–	–	–	–	94	94
Share option expense and related taxation	–	–	–	–	–	–	67	67
Dividends net scrip	–	–	–	–	–	–	(223)	(223)
Debt recognition premium	–	–	–	–	–	–	(211)	(211)
At 31 December 2005	5	11	23	(20)	76	6	6,143	6,244
Recognised income and expenses	–	–	68	38	–	364	1,145	1,615
Net own shares adjustment	–	–	–	–	–	–	96	96
Share option expense and related taxation	–	–	–	–	–	–	32	32
Dividends net scrip	–	–	–	–	–	–	(357)	(357)
At 30 June 2006	5	11	91	18	76	370	7,059	7,630

STANDARD CHARTERED PLC - NOTES continued

21. Reserves and Retained Earnings continued

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust (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 (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 trusts to enable the trustee to acquire shares to satisfy these awards.

For the period ended 30 June 2006, the 1995 trust has acquired, at market value, nil (30 June 2005: 11,700,000, 31 December 2005: nil) Standard Chartered PLC shares for an aggregate price of \$nil million (30 June 2005: \$211 million, 31 December 2005: \$nil million). These shares 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 30 June 2006, the 1995

trust held 5,104,262 (30 June 2005: 19,503,732, 31 December 2005: 13,631,745) Standard Chartered PLC shares, of which 5,104,262 (30 June 2005: 16,793,958, 31 December 2005: 11,521,682) have vested unconditionally.

For the period ended 30 June 2006, the 2004 trust has acquired, at market value, 321,242 (30 June 2005: 422,659, 31 December 2005: nil) Standard Chartered PLC shares for an aggregate price of \$9 million (30 June 2005: \$8 million, 31 December 2005: \$nil million). These shares 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 30 June 2006, the 2004 trust held 311,575 (30 June 2005: 429,012, 31 December 2005: 409,160) Standard Chartered PLC shares, of which nil (30 June 2005: 7,333, 31 December 2005: 7,333) have vested unconditionally.

None of the shares held by the 1995 trust or the 2004 trust were purchased on The Stock Exchange of Hong Kong Limited.

22. Minority Interests

	\$300m 7.267% Hybrid Tier 1 Securities \$million	Other minority interests \$million	Total \$million
At 1 January 2006	336	115	451
Additions	–	50	50
Exchange translation differences	–	(2)	(2)
Other profits attributable to minority	10	19	29
Recognised income and expense	10	17	27
Distributions	(11)	(17)	(28)
At 30 June 2006	335	165	500

23. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises of the following balances with less than three months maturity from the date of acquisition:

	30.06.06 \$million	30.06.05 \$million	31.12.05 \$million
Cash and balances with central banks	11,813	5,667	8,012
Less restricted balances	(7,194)	(2,769)	(4,269)
Treasury bills and other eligible bills	6,222	4,686	4,049
Loans and advances to banks	12,627	13,719	17,590
Trading securities	7,919	6,507	9,844
Total	31,387	27,810	35,226

STANDARD CHARTERED PLC - NOTES continued

24. Net Interest Margin and Interest Spread

	30.06.06 %	30.06.05 %	31.12.05 %
Net interest margin*	2.5	2.6	2.5
Interest spread**	2.0	2.4	2.0

	\$million	\$million	\$million
Average interest earning assets	203,539	151,540	189,704
Average interest bearing liabilities	179,200	138,973	163,758

* Net interest margin is net interest income expressed as an annualised percentage of average interest earning assets.

** Interest spread is the difference between the average annualised interest rate on average interest earning assets and the average interest rate on average interest bearing liabilities.

25. Remuneration

The Group employed 49,255 staff at 30 June 2006 (30 June 2005: 42,100, 31 December 2005: 43,899).

Within the authority delegated by the Board of Directors, the Board Remuneration Committee is involved in determining the remuneration policy of Standard Chartered Group but specifically for agreeing the individual remuneration packages for executive directors and other highly remunerated individuals. No executive directors are involved in deciding their own remuneration. The Group's remuneration policy is to:

- Support a strong performance-oriented culture and ensure that individual rewards and incentives relate directly to the performance of the individual, the operations and functions for which they are responsible, the Group as a whole and the interests of the shareholders; and
- Maintain competitive awards that reflect the international nature of the Group and enable it to attract and retain talented employees of the highest quality internationally.

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

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

Standard Chartered believes strongly in encouraging employee share ownership at all levels in the organisation. The Group operates certain discretionary share plans, which are designed to provide competitive long-term incentives. Of these plans, the Performance Share Plan and the Executive Share Option Scheme are only exercisable upon the achievement of specific performance criteria. In addition, the Group operates two all-employee sharesave schemes in which 33 per cent of employees participate.

STANDARD CHARTERED PLC - NOTES continued

26. 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.

	30.06.06			30.06.05		
	Contract or underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million	Contract or underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million
Contingent liabilities:						
Guarantees and irrevocable letters of credit	13,561	10,320	7,641	17,002	12,434	9,327
Other contingent liabilities	12,621	8,732	6,515	3,749	2,811	1,935
	26,182	19,052	14,156	20,751	15,245	11,262
Commitments:						
Documentary credits and short term trade-related transactions	5,613	1,123	929	3,700	740	603
Forward asset purchases and forward deposits placed	42	42	8	87	87	17
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	13,091	6,545	4,081	9,837	4,918	3,708
Less than one year	17,073	–	–	17,955	–	–
Unconditionally cancellable	31,429	–	–	27,375	–	–
	67,248	7,710	5,018	58,954	5,745	4,328

	31.12.05		
	Contract or underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million
Contingent liabilities			
Guarantees and irrevocable letters of credit	15,952	11,106	7,704
Other contingent liabilities	6,295	5,134	2,995
	22,247	16,240	10,699
Commitments			
Documentary credits and short term trade-related transactions	3,730	746	572
Forward asset purchases and forward deposits placed	141	141	28
Undrawn formal standby facilities, credit lines and other commitments to lend:			
One year and over	11,128	5,564	3,956
Less than one year	18,690	–	–
Unconditionally cancellable	28,705	–	–
	62,394	6,451	4,556

STANDARD CHARTERED PLC - NOTES continued

27. 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 13 and 26 explains the Group's risk management with respect to asset and liability management.

	30.06.06				
	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	10,249	–	–	1,564	11,813
Derivative financial instruments	12,721	–	–	–	12,721
Loans and advances to banks	12,695	2,370	2,471	106	17,642
Loans and advances to customers	37,303	22,391	26,627	33,824	120,145
Investment securities	23,861	15,914	15,533	2,324	57,632
Other assets	1,846	556	649	15,144	18,195
Total assets	98,675	41,231	45,280	52,962	238,148
Liabilities					
Deposits by banks	20,362	2,670	517	175	23,724
Customer accounts	105,380	16,014	7,814	2,675	131,883
Derivative financial instruments	13,390	–	–	–	13,390
Debt securities in issue	10,741	7,958	8,090	397	27,186
Other liabilities	6,887	504	1,252	8,667	17,310
Subordinated liabilities and other borrowed funds	–	185	2,397	8,223	10,805
Total liabilities	156,760	27,331	20,070	20,137	224,298
Net liquidity gap	(58,085)	13,900	25,210	32,825	13,850

	30.06.05				
	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
Total assets	66,780	44,303	39,746	53,814	204,643
Total liabilities	131,753	31,354	11,980	17,022	192,109
Net liquidity gap	(64,973)	12,949	27,766	36,792	12,534

	31.12.05				
	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
Total assets	74,959	39,159	41,210	59,768	215,096
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

STANDARD CHARTERED PLC - NOTES continued

28. Market Risk

Trading book

	6 months ended 30.06.06				6 months ended 30.06.05			
	Average \$million	High \$million	Low \$million	Actual \$million	Average \$million	High \$million	Low \$million	Actual \$million
Daily value at risk:								
Interest rate risk	3.4	4.5	2.5	4.0	4.1	5.5	3.1	3.6
Foreign exchange risk	2.7	4.1	1.4	2.9	1.6	2.8	1.0	1.4
Total	4.4	5.5	3.1	4.2	4.4	5.9	3.5	3.9

	6 months ended 31.12.05			
	Average \$million	High \$million	Low \$million	Actual \$million
Daily value at risk:				
Interest rate risk	4.0	5.1	3.1	3.9
Foreign exchange risk	1.3	1.8	1.0	1.1
Total	4.1	4.9	3.3	3.9

This note should be read in conjunction with the market risk section of the Financial Review on pages 25 and 26 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 historical 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.

STANDARD CHARTERED PLC - NOTES continued

29. Restatement of Prior Periods

Acquisition of SCFB

The fair values of assets and liabilities acquired on the acquisition of SCFB and presented in the 30 June 2005 interim report were provisional. The fair values were revised in the 2005 annual report and accounts as at 31 December 2005, as required under IFRS 3 Business Combinations. The effect of the reassessed fair values was to increase goodwill by \$126 million. This, together with reclassifications, has been included in the 30 June 2005 balance sheet. The effect of the restatement is set out in the table below.

Re-presentation of financial assets and liabilities held at fair value

As at 30 June 2005 financial assets and liabilities held at fair value were presented in separate balance sheet lines. In the 2005 annual report and accounts as at 31 December 2005, these financial assets and liabilities were re-presented in separate financial asset and liability lines. Treasury bill, debt securities and equity securities were aggregated into a single line called investment securities (after reclassifying those held at fair value). The effect of this re-presentation is set out in the table below.

	As reported at 30.06.05 \$million	Re-presentation \$million	Adjustment to SCFB \$million	Restated at 30.06.05 \$million
Cash and balances at central banks	5,667	–	–	5,667
Financial assets held at fair value through profit or loss	–	8,459	–	8,459
Treasury bills and other eligible bills	13,011	(13,011)	–	–
Derivative financial instruments	10,704	–	–	10,704
Loans and advances to banks	20,955	(1,081)	–	19,874
Loans and advances to customers	107,929	(871)	(548)	106,510
Debt securities	30,877	(30,877)	–	–
Equity shares	945	(945)	–	–
Investment securities	–	38,326	8	38,334
Goodwill and intangible assets	4,233	–	126	4,359
Property, plant and equipment	1,614	–	1	1,615
Deferred tax assets	320	–	72	392
Other assets	5,763	1,060	(3)	6,820
Prepayments and accrued income	1,909	–	–	1,909
Total assets	203,927	1,060	(344)	204,643
Deposits by banks	21,653	(695)	–	20,958
Customer accounts	108,770	(1,304)	(410)	107,056
Financial liabilities held at fair value through profit or loss	–	5,699	121	5,820
Derivative financial instruments	10,388	–	–	10,388
Debt securities in issue	27,955	(1,073)	(121)	26,761
Current tax liabilities	275	–	–	275
Other liabilities	11,222	(1,607)	229	9,844
Accruals and deferred income	1,854	–	–	1,854
Provisions for liabilities and charges	81	–	–	81
Retirement benefit obligations	397	–	138	535
Subordinated liabilities and other borrowed funds	8,838	–	(301)	8,537
Total liabilities	191,433	1,020	(344)	192,109
Total equity	12,494	40	–	12,534
Total equity and liabilities	203,927	1,060	(344)	204,643

STANDARD CHARTERED PLC - NOTES continued

29. Restatement of Prior Periods continued

Segmental analysis

The Group has refined its method of charging for and allocating capital and as a consequence the segmental results for the periods ended 30 June 2005 and 31 December 2005 have 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.

	31.12.05			
	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Operating income as previously reported	2,084	1,541	–	3,625
Restatement	(5)	5	–	–
Operating income as restated	2,079	1,546	–	3,625

	30.06.05									
	Asia Pacific									
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
Operating income as previously reported	747	261	157	308	524	302	388	255	294	3,236
Restatement	3	–	(1)	1	–	–	(1)	–	(2)	–
Operating income as restated	750	261	156	309	524	302	387	255	292	3,236

	31.12.05									
	Asia Pacific									
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
Operating income as previously reported	765	249	176	646	530	288	420	296	255	3,625
Restatement	(31)	4	3	2	3	3	5	2	9	–
Operating income as restated	734	253	179	648	533	291	425	298	264	3,625

30. Related Party Transactions

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling \$6 million at 30 June 2006 (30 June 2005: \$5 million, 31 December 2005: \$28 million).

Associates

On 15 August 2005, the Group contributed \$128 million to China Bohai Bank Limited for its 19.99 per cent investment.

On 12 January 2006 the Company issued 3,401,290 ordinary shares to acquire 20 per cent of Fleming Family & Partners Limited.

31. Proposed Redemption of Preference Shares

The outstanding 328,388 8.9 per cent non-cumulative

preference shares will be redeemed during the second half of 2006.

32. Statutory Accounts

The information in this interim statement is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. This document was approved by the Board on 8 August 2006. The comparative figures for the financial year end 31 December 2005 are not the Company's statutory accounts for that financial period.

These statutory accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

33. Corporate Governance

The directors confirm that, throughout the period, the Company has complied with the provisions of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange. The

directors also confirm that the announcement of these results has been reviewed by the Company's Audit and Risk Committee.

Annex E – 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. 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 the amounts reported in respect of 2005. IAS 32 and IAS 39 were adopted by the Group on January 1, 2005 and adjustments required to adopt IAS 32 and 39 are set out in note 55 to the Group's audited consolidated financial statements as of and for the year ended December 31, 2005.

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 SCFB \$million	SCFB acquisition \$million	2005 \$million	2004 \$million
Interest income	3	6,938	1,812	8,750	5,312
Interest expense	4	(3,384)	(1,031)	(4,415)	(2,130)
Net interest income		3,554	781	4,335	3,182
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
Operating income		6,002	859	6,861	5,382
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)
Operating expenses		(3,232)	(579)	(3,811)	(2,849)
Operating profit before impairment losses and taxation		2,770	280	3,050	2,533
Impairment losses on loans and advances and other credit risk provisions	19	(266)	(53)	(319)	(214)
Other impairment	9	(50)	–	(50)	(68)
Profit before taxation		2,454	227	2,681	2,251
Taxation	10	(657)	(53)	(710)	(630)
Profit for the year		1,797	174	1,971	1,621
Profit attributable to:					
Minority interests	39			25	43
Parent company's shareholders				1,946	1,578
Profit for the year				1,971	1,621
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 \$million	2004 \$million
Assets			
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
Total assets		215,096	147,124
Liabilities			
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
Total liabilities		202,763	137,055
Equity			
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
Total equity		12,333	10,069
Total equity and liabilities		215,096	147,124

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 \$million	2004 \$million	2005 \$million	2004 \$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
Total recognised income and expenses for the year		1,688	1,736	798	663

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 \$million	2004 \$million	2005 \$million	2004 \$million
Cash flow from operating activities				
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)
Net cash from operating activities	9,804	5,019	2,461	541
Net cash flows from investing activities				
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	–	–
Net cash used in investing activities	(278)	(2,562)	(3,681)	–
Net cash (outflow)/inflow from financing activities				
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)
Net cash from/(used in) financing activities	3,866	(604)	1,207	(663)
Net increase/(decrease) in cash and cash equivalents	13,392	1,853	(13)	(122)
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
Cash and cash equivalents at end of year (note 41)	35,226	22,112	1,590	1,603

Company Balance Sheet

At 31 December 2005

	Notes	2005 \$million	2004 \$million
Non-current assets			
Investments in subsidiary undertakings	22	7,973	4,292
Current assets			
Amounts owed by subsidiary undertakings		1,839	2,221
Taxation		204	206
Other		24	7
		2,067	2,434
Creditors: amounts due within one year			
Amounts owed to subsidiary undertakings		249	618
Other creditors, including taxation		32	8
Deferred income		53	–
		334	626
Net current assets		1,733	1,808
Total assets less current liabilities		9,706	6,100
Creditors: amounts due after more than one year			
Subordinated liabilities and other borrowed funds	36	1,893	1,588
Deferred income		1,400	–
		6,413	4,512
Equity			
Share capital and share premium	37	5,638	3,802
Reserves and retained earnings	38	775	710
Total equity		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 \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Internal income	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								Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	*Middle East & Other S Asia \$million	Africa \$million		
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 \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Internal income	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 impairment losses	746	285	125	29	278	214	378	224	254	2,533
Impairment losses on loans 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 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 – 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 – 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 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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$million
Premises	53	47
Equipment	73	68
Intangibles:		
Software	125	123
Acquired on business combinations	32	—
	283	238

9. Other Impairment

	2005 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$million
Non-cumulative irredeemable preference shares: 7 3/4 per cent preference shares of £1 each*	14	14
8 1/4 per cent preference shares of £1 each*	15	15
Non-cumulative redeemable preference shares: 8.9 per cent preference shares of \$5 each	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 \$million	Weighted average number of shares (‘000)	Per share amount cents	Profit \$million	Weighted average number of shares (‘000)	Per share amount cents
Basic earnings per ordinary share	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 \$million	2004 \$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					Total \$million
	Trading \$million	Designated at fair value through profit or loss \$million	Available- for-sale \$million	Loans and receivables \$million	Held to- maturity \$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 \$million	Designated at fair value \$million	Amortised cost \$million	Total \$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 \$million	Designated at fair value through profit or loss \$million	Total \$million	Total Trading \$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 \$million	2004 \$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	–
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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 principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Total derivatives						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	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
Interest rate derivative contracts:						
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
Credit derivative contracts	9,374	45	52	–	–	–
Equity and stock index options	379	3	3	–	–	–
Commodity derivative contracts	4,642	12	12	6,030	33	33
Total derivatives	1,172,262	9,370	9,864	1,097,979	12,945	12,375
Effect of netting		(6,271)			(7,563)	
Net credit risk on derivatives		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
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Swaps	6,123	368	143	–	–	–
	6,123	368	143	–	–	–
Derivatives designated as cash flow hedges						
Swaps	3,581	–	24	–	–	–
Forward foreign exchange contracts	802	4	23	–	–	–
	4,383	4	47	–	–	–
Hedges under UK GAAP						
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 \$million	2004 \$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 \$million	2004 \$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 \$million	One to five years \$million	Over five years \$million	Total \$million	Total \$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 \$million	2004 \$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 \$million	2004 \$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 Total \$million	2004 Specific \$million	General \$million
Provisions held at beginning of year	1,794	1,661	425
Adoption of IAS 39 ¹	(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 ¹	(583)	(340)	(55)
Net charge against/(credit to) profit ²	332	269	(55)
Provisions held at 31 December ³	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 \$million	2004 \$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 (LMA) \$million	Other \$million	Total \$million	SCNB (LMA) \$million	Other \$million	Total \$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 \$million	Available-for-sale \$million	Loans and receivables \$million	Total \$million	Total \$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	Treasury bills	Total
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	\$million	\$million	\$million
Issued by public bodies:						
Government securities	215	8,618	–			
Other public sector securities	–	1,418	–			
	215	10,036	–			
Issued by banks:						
Certificates of deposit	–	6,330	–			
Other debt securities	–	5,973	–			
	–	12,303	–			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,892	1,264			
	–	2,892	1,264			
Total debt securities	215	25,231	1,264			
Listed on a recognised UK exchange	–	5,944	–	23	–	5,967
Listed elsewhere	3	6,776	–	235	7,005	14,019
Unlisted	212	12,511	1,264	696	3,194	17,877
	215	25,231	1,264	954	10,199	37,863

21. Investment Securities continued

	2004			
	Debt securities \$million	Equity securities \$million	Treasury bills \$million	Total \$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 \$million	Equity securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity securities \$million	Treasury bills \$million	Total \$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 \$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 \$million	2004 \$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 \$million	2004 \$million
At 1 January	–	–
Additions	128	–
At 31 December	128	–
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 \$million	Acquiree's carrying amount \$million
Cash and balances at central banks*	2,321	2,321
Derivative financial instruments	27	27
Loans and advances to banks	890	890
Loans and advances to customers	31,455	31,983
Investment securities	8,153	8,139
Intangibles other than goodwill	229	58
Property, plant and equipment	1,088	1,109
Deferred tax assets	97	15
Other assets	887	884
Total assets	45,147	45,426
Deposits by banks	2,782	2,782
Customer accounts	18,923	19,328
Financial liabilities held at fair value through profit or loss	121	–
Derivative financial instruments	240	240
Debt securities in issue	16,871	17,243
Other liabilities	2,962	2,239
Subordinated liabilities and other borrowed funds	1,280	1,514
Total liabilities	43,179	43,346
Minority interest	333	298
Net assets acquired	1,635	1,782
Purchase consideration settled in cash	3,373	
Cash and cash equivalents in subsidiary acquired	(2,378)	
Cash outflow on acquisition	995	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts 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
Total	229

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 \$million	Acquiree's carrying amount \$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 \$million	Acquired intangibles \$million	Software \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million
Cost								
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
Provision for amortisation								
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 \$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
		3,937

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 \$million	Equipment \$million	Total \$million	Premises \$million	Equipment \$million	Total \$million
Cost or valuation						
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
Depreciation						
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 \$million	2004 \$million
Premises – analysis of net book amount		
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 \$million	Equipment \$million	Premises \$million	Equipment \$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 \$million	2004 \$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 1 January 2005 \$million	Adoption of IAS 32/39 \$million	At 1 January 2005 \$million	Exchange translation differences \$million	Acquisitions \$million	Charge/ (credit) to profit \$million	(Credit) to equity \$million	At 31 December 2005 \$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 1 January 2004 \$million	Exchange translation differences \$million	Charge/ (credit) to profit \$million	(Credit) to equity \$million	At 31 December 2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	2004 \$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 \$million	Designated \$million	Total \$million	Total Trading \$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 deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	14,179	11,734	25,913	4,079	6,926	11,005
Debt securities in issue within:						
Financial liabilities at fair value 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 \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
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 \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Group Head Office \$million	Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
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 \$million	2004 \$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 credit commitments \$million	Other provisions \$million	Total \$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 \$million	2004 \$million
Defined benefit schemes	465	160
Defined contribution schemes	11	9
Net book amount	476	169

	2005 \$million	2004 \$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 \$million	2004 \$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 ²		Overseas Schemes ¹	
	2005 %	2004 %	2005 %	2004 %
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 60th birthday.

35. Retirement Benefit Obligations continued

	Unfunded Schemes			
	Post-retirement Medical ¹		Other	
	2005 %	2004 %	2005 %	2004 %
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 reducing by 1% per annum to 5% in 2010	9% in 2004 reducing by 1% per annum to 5% 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 return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2005								
Equities	7.75	619	7.75-12.00	162	N/A	N/A	N/A	N/A
Bonds	4.25	909	4.25-12.00	133	N/A	N/A	N/A	N/A
Property	N/A	–	7.00-12.00	2	N/A	N/A	N/A	N/A
Others	4.90	22	1.75- 4.90	83	N/A	N/A	N/A	N/A
Total market value of assets		1,550		380		N/A		N/A
Present value of the schemes' liabilities		(1,785)		(403)		(11)		(196)
Net pension liability*		(235)		(23)		(11)		(196)

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 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:

Year ending 31 December 2005	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post- retirement Medical \$million	Other \$million	
Deficit at 1 January 2005	(83)	(21)	(11)	(45)	(160)
Contributions	11	49	1	11	72
Current service cost	(16)	(41)	(1)	(14)	(72)
Past service cost	–	–	–	–	–
Settlement/curtailment costs	1	–	–	–	1
Other finance income/(charge)	8	4	–	(7)	5
Actuarial (loss)/gain	(165)	15	–	–	(150)
Acquisitions	–	(28)	–	(141)	(169)
Exchange rate adjustment	9	(1)	–	–	8
Deficit at 31 December 2005	(235)	(23)	(11)	(196)	(465)

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	
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:

Year ending 31 December 2005	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January 2005	1,913	(2,073)	(160)
Contributions	72	–	72
Current service cost	–	(72)	(72)
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 \$million	2004 \$million
Dated subordinated loan capital – issued by subsidiary undertakings		
£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
Undated subordinated loan capital – issued by subsidiary undertakings		
£400 million	683	–
£275 million	473	–
	1,156	–
Undated subordinated loan capital – issued by Company		
Primary Capital Floating Rate Notes:		
\$400 million	400	400
\$300 million (Series 2)	300	300
\$400 million (Series 3)	400	400
\$200 million (Series 4)	200	200
£150 million	258	288
	1,558	1,588
Other undated borrowings – issued by Undertakings	–	36
Other undated borrowings – issued by Company	*343	–
Total for Group	10,349	6,768
Total for Company	1,893	1,588

* 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 ordinary shares (millions)	Ordinary share capital \$m	Preference share capital \$m	Share premium account \$m	Total \$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 Reserve \$million	Capital Redemption Reserve \$million	Available-for-sale reserve \$million	Cash flow hedge reserve \$million	Premises revaluation reserve \$million	Translation reserve \$million	Retained earnings \$million	Total \$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 Reserve \$million	Capital Redemption Reserve \$million	Retained earnings \$million	Total \$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 2022 Step-Up Notes \$million	£300m 8.103% Step-Up Callable Perpetual Trust \$million	\$300m 7.267% Hybrid Tier-1 Securities \$million	Other minority interests \$million	Total \$million
At 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 \$million	2004 \$million	2005 \$million	2004 \$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
Total	35,226	22,112	1,590	1,603

42. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2005 \$million	2004 \$million
Contracted	5	6
Not contracted	2	2

43. Operating Lease Commitments

	2005		2004	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
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	–
	424	7	312	7

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 underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million	Contract or underlying principal amount \$million	Credit equivalent amount \$million	Risk weighted amount \$million
Contingent liabilities						
Acceptances and endorsements*	—	—	—	976	976	842
Guarantees and irrevocable letters 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
Commitments						
Documentary credits and short term trade- related transactions	3,730	746	572	2,924	585	494
Forward asset purchases and forward deposits placed	141	141	28	54	54	11
Undrawn formal standby facilities, credit 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 repurchase agreements \$million	Reverse repurchase agreements \$million
Banks	1,267	924
Customers	185	139
	1,452	1,063

Balance sheet liabilities

	2005	2004
	Repurchase agreements \$million	Repurchase agreements \$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 \$million	2004 \$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
Assets								
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
Total assets	5.1%	120,993	23,077	15,192	19,399	10,249	26,186	215,096
Liabilities								
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
Total liabilities	2.9%	118,468	18,061	15,172	11,060	12,797	27,205	202,763
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
Assets								
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
Total assets	4.5%	83,639	17,580	12,080	17,919	6,291	9,615	147,124
Liabilities								
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
Total liabilities	2.0%	88,759	8,252	7,102	8,143	6,589	18,210	137,055
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
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

	2004				
	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
Total assets	42,203	25,405	11,429	68,087	147,124
Total liabilities	96,036	9,911	6,763	24,345	137,055
Net liquidity gap	(53,833)	15,494	4,666	43,742	10,069

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 \$ million	Borrowing in functional currency of units being hedged \$million	Structural currency exposure \$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 \$million	Fair value \$million
Assets		
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
Liabilities		
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 \$million	Fair value \$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 \$million	High \$million	Low \$million	Actual \$million	Average \$million	High \$million	Low \$million	Actual \$million
Daily value at risk:								
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
Total	4.3	5.9	3.3	3.9	4.2	6.0	3.1	5.1

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 \$million	2004 \$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 \$million	Effect of transition to IFRS \$million	IFRS \$million
Interest income	a	5,232	80	5,312
Interest expense	a	(2,064)	(66)	(2,130)
Net interest income		3,168	14	3,182
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
Operating income		5,367	15	5,382
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)
Operating expenses		(2,996)	147	(2,849)
Operating profit before impairment losses and taxation		2,371	162	2,533
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)
Profit before taxation		2,158	93	2,251
Taxation	f	(637)	7	(630)
Profit for the year		1,521	100	1,621

55. Transition to EU Adopted IFRS continued

Reconciliation of profit for the year ended 31 December 2004 – Group and Company

	Notes	Group \$million	Company \$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 share premium \$million	Capital and capital redemption reserve \$million	Premises revaluation \$million	Own shares held in ESOP Trusts \$million	Retained earnings \$million	Minority interest \$million	Total equity \$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 \$million	Capital and capital redemption reserve \$million	Premises revaluation \$million	Own shares held in ESOP Trusts \$million	Retained earnings \$million	Minority interest \$million	Total equity \$million
UK GAAP		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)
IFRS		3,802	16	76	(8)	5,219	964	10,069

Reconciliation of balance sheet at 31 December 2004 – Group

	Notes	UK GAAP \$million	Effect of transition to IFRS \$million	IFRS \$million	Reclassification to IFRS format \$million	IFRS \$million
Assets						
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
Total assets		141,688	5,390	147,078	46	147,124
Liabilities						
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
Total liabilities		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
Total equity		9,391	678	10,069	–	10,069
Total equity and liabilities		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/ premium and redemption reserve \$million	AFS reserves \$million	Cash flow hedge reserve \$million	Premises revaluation \$million	Retained earnings \$million	Minority interest \$million	Total equity \$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 (ex IAS 32/39) \$million	Effect of IAS 32 /39 \$million	IFRS \$million
Assets			
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
Liabilities			
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 $\frac{3}{8}$ % and £100 million 8 $\frac{1}{4}$ % 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 \$million	Capital & redemption reserve \$million	Revaluation reserve \$million	Retained earnings \$million	Total equity \$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 \$million	Capital & redemption reserve \$million	Revaluation reserve \$million	Retained earnings \$million	Total equity \$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 UK GAAP \$million	Effects of transition to IFRS \$million	2004 IFRS \$million
Non-current assets				
Investments in subsidiary undertakings	iii	10,240	(5,948)	4,292
Current assets				
Amounts owed by subsidiary undertakings	iii	631	1,590	2,221
Taxation		126	80	206
Other		–	7	7
		757	1,677	2,434
Creditors: amounts due within one year				
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
Creditors: amounts due after more than one year				
Undated subordinated loan capital		1,588	–	1,588
		8,435	(3,923)	4,512
Equity				
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 7³/₈ and £100 million 8¹/₄ 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 %
Assets				
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			
Total average assets	26,516	170,622	8,750	5.1

	2004			
	Average non interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
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			
Total average assets	13,009	122,406	5,312	4.3

Average Balance Sheets and Yield continued

	2005			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Non-interest bearing current and demand accounts	12,976			
Interest bearing current and demand accounts	–	32,460	516	1.6
Savings deposits	123	7,400	97	1.3
Time 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 %
Liabilities				
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
	Volume \$million	Rate \$million	\$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*		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	–	–	–
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 \$million	*2004 \$million	**2003 \$million	**2002 \$million	**2001 \$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 ¹	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 ²	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 ²	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 ²	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.

**Annex F – Audited Consolidated Financial Statements as of and for the year ended
December 31, 2004**

The audited consolidated financial statements of the Group as of and for the year ended December 31, 2004 are prepared in accordance with UK GAAP.

Independent Auditor's Report

to the members of Standard Chartered PLC

We have audited the financial statements on pages 70 to 120. 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 are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 68, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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. 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 48 to 53 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, 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 of its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited

part of the directors' remuneration 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.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 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 financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; 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.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, 16 February 2005

Consolidated Profit and Loss Account

for the year ended 31 December 2004

	Notes	Before acquisitions \$million	Acquisitions** \$million	2004 \$million	2003* \$million
Interest receivable	1	5,208	24	5,232	4,790
Interest payable	2	(2,062)	(2)	(2,064)	(1,822)
Net interest income		3,146	22	3,168	2,968
Other finance income/(charge)	6	10	–	10	(13)
Fees and commissions receivable		1,617	–	1,617	1,318
Fees and commissions payable		(283)	–	(283)	(162)
Dealing profits	3	647	1	648	525
Other operating income	4	206	1	207	104
		2,187	2	2,189	1,785
Net revenue		5,343	24	5,367	4,740
Administrative expenses:					
Staff	5	(1,529)	(5)	(1,534)	(1,332)
Premises	5	(319)	(2)	(321)	(290)
Other	5	(716)	(5)	(721)	(640)
Depreciation and amortisation	7	(418)	(2)	(420)	(381)
Total operating expenses		(2,982)	(14)	(2,996)	(2,643)
Operating profit before provisions		2,361	10	2,371	2,097
Provisions for bad and doubtful debts	17	(210)	(4)	(214)	(536)
Amounts written off fixed asset investments		(1)	–	(1)	(11)
Operating profit		2,150	6	2,156	1,550
Income from joint venture		–	2	2	–
Profit on ordinary activities before taxation		2,150	8	2,158	1,550
Taxation	9	(635)	(2)	(637)	(497)
Profit after taxation		1,515	6	1,521	1,053
Minority interests		(42)	–	(42)	(29)
Profit for the year attributable to shareholders		1,473	6	1,479	1,024
Dividends on non-equity preference shares	10	(58)	–	(58)	(55)
Dividends on ordinary equity shares	11	(725)	–	(725)	(611)
Retained profit		690	6	696	358
Normalised earnings per ordinary share	12			125.9c	90.1c
Basic earnings per ordinary share	12			121.2c	82.0c
Diluted earnings per ordinary share	12			119.3c	81.0c
Dividend per ordinary share	11			57.5c	52.0c

*Comparative restated (see note 54 on page 118).

**Refer to note 23 on page 93 to 94.

The results are all from continuing operations.

Consolidated Balance Sheet

at 31 December 2004

	Notes	2004 \$million	2003* \$million
Assets			
Cash and balances at central banks		2,079	1,835
Cheques in course of collection		190	147
Treasury bills and other eligible bills	13	4,425	5,689
Loans and advances to banks	14	18,922	13,354
Loans and advances to customers	15	71,596	59,744
Debt securities and other fixed income securities	20	28,295	23,141
Equity shares and other variable yield securities	21	253	359
Interest in joint venture – share of gross assets		1,179	–
– share of gross liabilities		(992)	–
– share of net assets		187	–
Intangible fixed assets	24	1,900	1,986
Tangible fixed assets	25	844	884
Other assets	27, 33	11,729	11,996
Prepayments and accrued income		1,268	1,067
Total assets		141,688	120,202
Liabilities			
Deposits by banks	28	15,813	10,924
Customer accounts	29	84,572	73,767
Debt securities in issue	30	7,378	6,062
Other liabilities	32	16,361	13,984
Accruals and deferred income		1,262	1,181
Provisions for liabilities and charges	34	59	46
Pension and post retirement liabilities (net of deferred tax)	35	120	128
Subordinated liabilities: Undated loan capital	36	1,588	1,568
Dated loan capital (including convertible bonds)	36	5,144	4,399
Minority interests: Equity	37	111	83
Non equity	37	845	531
Called up share capital	38, 39	967	939
Share premium account	39	2,835	2,813
Capital reserve	39	5	5
Capital redemption reserve	39	11	11
Premises revaluation reserve	39	(5)	(2)
Own shares held in ESOP Trusts	39	(8)	(60)
Profit and loss account	39	4,630	3,823
Shareholders' funds (including non-equity interests)	39	8,435	7,529
Total liabilities and shareholders' funds		141,688	120,202
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements	46	976	716
Guarantees and irrevocable letters of credit	46	15,942	12,350
Other contingent liabilities	46	3,139	4,802
		20,057	17,868
Commitments:			
Cancellable	46	25,933	26,589
Non-cancellable	46	21,021	14,568
		46,954	41,157

* Comparative restated (see note 54 on page 118).

These accounts were approved by the Board of Directors on 16 February 2005 and signed on its behalf by:

B K Sanderson
Chairman

E M Davies
Group Chief Executive

P A Sands
Group Executive Director

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2004

	Notes	2004 \$million	2003* \$million
Profit for the year attributable to shareholders		1,479	1,024
Exchange translation differences		93	69
Actuarial loss on retirement benefits	6	(5)	(65)
Deferred tax on actuarial gain on retirement benefits	6	1	20
		1,568	1,048
Prior year adjustments**		(186)	
Total recognised gains and losses since the last annual report		1,382	

*Comparative restated (see note 54 on page 118).

**Including comparative actuarial gains/losses in prior periods.

Note of Consolidated Historical Cost Profits and Losses

for the year ended 31 December 2004

There is no material difference between the results as reported and the results that would have been reported on a historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

Consolidated Cash Flow Statement

for the year ended 31 December 2004

	Notes	2004 \$million	2003* \$million
Net cash inflow from operating activities	41	2,503	3,748
Returns on investment and servicing of finance			
Interest paid on subordinated loan capital		(338)	(298)
Dividends paid to minority shareholders of subsidiary undertakings		(17)	(22)
Dividends paid on preference shares		(58)	(55)
Net cash outflow from returns on investments and servicing of finance		(413)	(375)
Taxation			
UK taxes paid		(33)	(161)
Overseas taxes paid		(540)	(353)
Total taxes paid		(573)	(514)
Capital expenditure and financial investment			
Purchases of tangible fixed assets		(240)	(156)
Acquisitions of treasury bills held for investment purposes		(9,396)	(12,604)
Acquisitions of debt securities held for investment purposes		(75,353)	(49,247)
Acquisitions of equity shares held for investment purposes		(121)	(194)
Disposals of tangible fixed assets		51	14
Disposals and maturities of treasury bills held for investment purposes		10,778	12,632
Disposals and maturities of debt securities held for investment purposes		71,482	49,498
Disposals of equity shares held for investment purposes		356	13
Net cash outflow from capital expenditure and financial investment		(2,443)	(44)
Net cash (outflow)/inflow before equity dividends paid and financing		(926)	2,815
Net cash outflow from the purchase of interests in subsidiary undertakings and joint venture	23	(333)	–
Net cash inflow/(outflow) from disposal of interests in subsidiary and associated undertakings and the business of a branch		6	(95)
Net cash outflow from acquisition and disposals		(327)	(95)
Equity dividends paid to members of the Company		(587)	(531)
Financing			
Gross proceeds from issue of ordinary shares		–	3
Repurchase of preference share capital		–	(20)
Gross proceeds from issue of preferred securities		499	–
Repayment of subordinated liabilities		(25)	–
Net cash inflow/(outflow) from financing		474	(17)
(Decrease)/increase in cash in the year		(1,366)	2,172

*Comparative restated (see note 54 on page 118).

Company Balance Sheet

at 31 December 2004

	Notes	2004 \$million	2003* \$million
Fixed assets			
Investments in subsidiary undertakings	22	10,240	9,287
Current assets			
Amounts owed by subsidiary undertakings		631	137
Taxation		126	118
		757	255
Creditors: amounts due within one year			
Proposed dividend		524	429
Amounts owed to subsidiary undertakings		442	–
Other creditors, including taxation		8	16
		974	445
Net current liabilities		(217)	(190)
Total assets less current liabilities		10,023	9,097
Creditors: amounts due after more than one year			
Undated subordinated loan capital	36	1,588	1,568
		8,435	7,529
Capital and reserves			
Called up share capital	38, 40	967	939
Share premium account	40	2,835	2,813
Capital reserve	40	5	5
Capital redemption reserve	40	11	11
Revaluation reserve	40	4,408	3,476
Profit and loss account	40	209	285
Shareholders' funds (including non-equity interests)		8,435	7,529

*Comparative restated (see note 54 on page 118)

These accounts were approved by the Board of Directors on 16 February 2005 and signed on its behalf by:

B K Sanderson
Chairman

E M Davies
Group Chief Executive

P A Sands
Group Executive Director

Principal Accounting Policies

Accounting Convention

The accounts of the Company and of the Group have been prepared under the historical cost convention, modified by the revaluation of certain fixed assets and dealing positions. The following accounting policies have been consistently applied.

FRS17 and UITF17 (revised) have been adopted during 2004 and prior year comparatives have been restated accordingly. Please refer to note 54 for further details.

Group Accounts

The consolidated accounts of the Group comprise the accounts of the Company and its subsidiary undertakings for the year ended 31 December 2004 and are drawn up in accordance with the special provisions of Part VII Chapter II of the UK Companies Act 1985 (the Act) relating to banking groups, Schedule 9 to the Act, applicable Accounting Standards, the British Bankers' Association's Statements of Recommended Accounting Practice (SORPs) and the SORP 'Accounting issues in the asset finance and leasing industry' issued by the Finance and Leasing Asset Association.

Company Accounts

The Company accounts are drawn up in accordance with section 228 of, and Schedule 4 to, the Act and applicable Accounting Standards. As permitted by section 230 of the Act, the Company's profit and loss account has not been included in these financial statements.

Bad and Doubtful Debts

Provisions for bad and doubtful debts 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.

Debt Securities, Equity Shares and Treasury Bills

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 or 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 dealing 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.

Deferred Taxation

In accordance with Financial Reporting Standard 19 – Deferred Tax, deferred taxation is provided in full on timing differences at the rates of taxation anticipated to apply when the differences crystallise, subject to the recoverability of deferred tax assets arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Equipment Leased to Customers and Instalment Credit Agreements

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. The balance sheet amount represents total minimum lease payments receivable less unearned income. Income from finance leases is recognised in the profit and loss account in proportion to the funds invested. Fixed rate instalment credit agreements are treated in a similar manner to finance leases.

Lease agreements other than finance leases are classified as operating leases. Operating leases are included in loans and advances but are treated as fixed assets and depreciated over the shorter of the lease term and the estimated useful life of the asset. The profits arising from operating leases are recognised in the profit and loss account on a straight-line basis over the duration of each lease.

Income arising from the residual interest in instalment credit agreements which have been sold is credited to the profit and loss account as it accrues. Expenses incurred in generating this income are deferred and amortised over the duration of the income flow and in proportion to it.

Foreign Currencies

Assets and liabilities in foreign currencies are expressed in US dollar terms at rates of exchange ruling on the balance sheet date. Profits and losses earned in foreign currencies are expressed in US dollar terms at the average exchange rate of each currency against US dollar during the year. Exchange

differences arising from the balance sheet period end rate and the profit and loss average rate are taken to reserves. Gains or losses arising from positions taken to hedge such profits and losses are included in the profit and loss account.

Translation differences arising from the application of closing rates of exchange to opening net assets of foreign operations denominated in foreign currencies are taken directly to reserves.

Exchange differences arising on the translation of opening net monetary assets and results of operations in areas experiencing hyper-inflation are included in the profit and loss account.

Non-monetary assets in these areas are not retranslated.

All other exchange differences arising from normal trading activities, and on branch profit and dividend remittances to the United Kingdom, are included in the profit and loss account.

Investments in Subsidiary Undertakings

Investments in subsidiary undertakings are stated in the balance sheet of the Company at the Company's share of their attributable net assets, together with any long-term loans provided by the Company to the subsidiary undertakings.

Joint Ventures

Interests in joint ventures are stated at the Group's share of gross assets including attributable goodwill, less its share of gross liabilities.

Off-Balance Sheet Financial Instruments

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.

Retirement Benefits

The Group has adopted 'FRS17 – Retirement Benefits' in full from 1 January 2004. In prior years, the Group complied with the transitional requirements of this standard. In accordance with FRS17, the operating and financing costs of defined benefit pension and post-retirement schemes are recognised separately in the profit and loss account. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. Financing costs include the interest cost and the expected return on assets (calculated using the market value of assets). The costs of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, are recognised in the Statement of Total Recognised Gains and Losses. For defined

contribution schemes, contributions are charged to the profit and loss account when payable.

Sale and Repurchase Agreements

These are arrangements under which assets are sold by one party to another on terms that provide for the seller to repurchase the assets in certain circumstances at a later date.

Where the substance of the transaction is that of a secured loan, the sale and any apparent profit will not be recorded as such in the books of the seller, but the proceeds of sale will be recorded as a deposit.

Swaps and Sales of Assets

Assets acquired through debt exchange transactions are included in the accounts in the same line as the original underlying asset at the directors' assessment of their fair value. Where the asset represents exposure to a country which is experiencing payment difficulties, it is stated at its principal amount and any provision required to reduce the exposure to its fair value is included with other provisions of a like nature.

Profits and losses on sales of assets are calculated by reference to their net carrying amount, whether at historical cost (less any provisions made) or at a valuation, at the time of disposal.

Tangible Fixed Assets

Freehold and long leasehold premises (premises with unexpired lease terms of 50 years or more) are included in the accounts at their historical cost or at the amount of any subsequent valuation. Leasehold premises with no long-term premium value are not revalued.

Land is not depreciated. Freehold premises are amortised on a straight-line basis over their estimated residual lives. Leasehold premises are amortised over the remaining term of each lease on a straight-line basis.

Equipment, including fixed plant in buildings, computers and capitalised software development expenditure, is stated at cost and is depreciated on a straight-line basis over its expected economic life, which is six years on a weighted average basis.

Intangible Fixed Assets

Any purchased goodwill is capitalised and amortised to nil, on a straight-line basis, over its estimated useful life. The amortisation period of capitalised goodwill is up to 20 years, being the period over which the Group expects to derive economic benefit from the assets. Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998 was written off through reserves in the year of acquisition and has not been restated. Any goodwill previously written off through reserves is charged through the profit and loss account in the year of disposal.

Fees and Commissions

Fees or 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 or commissions which in substance amount to an additional interest charge, are recognised over the life of the underlying transaction on a level yield basis.

Notes to the Accounts

1. Interest Receivable

	2004 \$million	2003 \$million
Balances at central banks	3	3
Treasury bills and other eligible bills	254	222
Loans and advances to banks	488	373
Loans and advances to customers	3,550	3,341
Listed debt securities	364	417
Unlisted debt securities	573	434
	5,232	4,790

2. Interest Payable

	2004 \$million	2003 \$million
Deposits by banks	385	390
Customer accounts:		
Current and demand accounts	147	105
Savings deposits	68	68
Time deposits	980	832
Debt securities in issue	120	133
Subordinated loan capital:		
Wholly repayable within five years	82	37
Other	282	257
	2,064	1,822

3. Dealing Profits

	2004 \$million	2003 \$million
Income from foreign exchange dealing	494	396
Profits less losses on dealing securities	20	12
Other dealing profits	134	117
	648	525

4. Other Operating Income

	2004 \$million	2003 \$million
Other operating income includes:		
Profits less losses on disposal of investment securities	164	62
Premium paid on repurchase of India subordinated debt	(23)	–
Dividend income	11	14

5. Administrative Expenses

	2004 \$million	2003* \$million
Staff costs:		
Wages and salaries	1,196	999
Social security costs	32	25
Other pension costs (note 6)	92	84
Other staff costs	214	224
	1,534	1,332
Premises and equipment expenses:		
Rental of premises	150	150
Other premises and equipment costs	159	125
Rental of computers and equipment	12	15
	321	290
Other expenses (see below)	721	640
Total administrative expenses	2,576	2,262

*Comparative restated (see note 54 on page 118).

Other expenses include \$7.1 million (2003: \$6.0 million*) in respect of auditor's remuneration for the Group of which \$0.4 million (2003: \$0.4 million) relates to the Company. The auditors of the Company, KPMG Audit Plc and their associated firms, also received \$5.9 million (2003: \$3.7 million*) in respect of non-audit services provided to the Group's UK subsidiaries. Details of non-audit services are reflected below.

	2004 \$million	2003* \$million
Non-audit fees paid to KPMG Audit Plc and its associated firms:		
Regulatory reviews	1.7	1.4
Accounting reviews/advisory	0.3	–
Capital raising activities	0.2	–
Assistance with business acquisitions and disposals	1.1	0.1
Tax advisory	1.2	0.9
Other assistance	1.4	1.3
Total	5.9	3.7

*Comparative restated to present on a consistent basis.

6. Retirement Benefits

The total charge for benefits under the Group's retirement benefit schemes was \$82 million (2003: \$97 million), of which \$45 million (2003: \$38 million) was for defined benefit pension schemes, \$46 million (2003: \$44 million) was for defined contribution pension schemes and \$1 million (2003: \$2 million) was for post-retirement benefits other than pensions. The finance income was \$10 million (2003: charge of \$13 million). These have been assessed under the accounting standard, Financial Reporting Standard 17 – Retirement Benefits (FRS17).

The total charge for defined benefit pension schemes under FRS17 is made up of a charge against operating profit of \$45 million (2003: \$38 million) plus a credit to investment income

of \$10 million (2003: charge of \$13 million). The total loss recognised in the Statement of Total Recognised Gains and Losses before tax is \$5 million (2003: \$65 million).

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:

6. Retirement Benefits continued

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 2004 totalled \$14 million (2003: \$139 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) 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 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 Pension Schemes

The principal overseas defined benefit pension schemes operated by the Group are in Hong Kong, India, Jersey, Kenya and the United States. For the transitional reporting under FRS17 in previous years only these countries were included. As part of the full introduction of FRS17 the reporting has been extended to include all defined benefit schemes operated by the Group.

The disclosures required under FRS17 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2004. (The effective date of the full valuations ranges between 31 December 2002 and 31 December 2004.)

Separate figures are disclosed for the UK Fund, Overseas Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2004 were:

	Funded Defined Benefit Schemes					
	2004 %	2003 %	UK Fund 2002 %	2004 %	Overseas Schemes ¹ 2003 %	2002 %
Price inflation	2.80	2.80	2.30	2.00-4.50	2.00-3.50	1.50-3.50
Salary increases	5.30	5.30	4.80	4.00-5.00	4.80-7.00	4.00-7.00
Pension increases	2.40	2.40	2.30	0.00-2.40	0.00-2.40	2.25-3.00
Discount rate	5.40	5.50	5.70	4.00-12.00	5.00-8.00	5.00-12.00
Post-retirement medical trend rate	N/A	N/A	N/A	N/A	N/A	N/A

Pension increases for the UK Fund range from 2.2 per cent to 2.6 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 2.8 per cent.

¹ The range of assumptions shown is for the main overseas schemes in Hong Kong, India, Jersey, Kenya and the United States. These comprise 89 per cent of the total schemes.

6. Retirement Benefits continued

	Unfunded Schemes					
	2004 %	2003 %	Post-retirement Medical ¹ 2002 %	2004 %	2003 %	Other 2002 %
Price inflation	2.70	2.50	1.75	2.00-6.00	2.50-3.50	1.75-3.50
Salary increases	4.00	4.00	4.00	4.00-8.00	4.00-5.30	4.00-7.00
Pension increases	N/A	N/A	N/A	0.00-2.40	0.00-2.40	0.00-2.30
Discount rate	6.20	6.25	6.75	3.00-10.00	5.50-7.00	5.70-8.50
Post-retirement medical rate	9% in 2004 reducing by 1% per annum to 5% in 2008	10% in 2003 reducing by 1% per annum to 5% in 2008	10% in 2002 reducing by 1% per annum to 5% in 2007	N/A	N/A	N/A

¹These values only cover the Post-retirement Medical plan 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 2004 were:

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 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)		(334)		(11)		(45)
Deficit*		(83)		(17)		(11)		(45)
Related deferred tax asset		25		5		3		13
Net pension liability		(58)		(12)		(8)		(32)

¹The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Kenya and the United States.

*No scheme contains a surplus that is non-recoverable.

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2003								
Equities	8.60	543	7.00-9.50	131	N/A	N/A	N/A	N/A
Bonds	4.80-5.50	813	5.50-8.00	93	N/A	N/A	N/A	N/A
Property	6.70	1	6.70-8.00	4	N/A	N/A	N/A	N/A
Others	4.90	73	2.50-8.00	7	N/A	N/A	N/A	N/A
Total market value of assets		1,430		235		N/A		N/A
Present value of the schemes' liabilities		(1,509)		(282)		(12)		(35)
Deficit*		(79)		(47)		(12)		(35)
Related deferred tax asset		24		13		4		8
Net pension liability		(55)		(34)		(8)		(27)

*No scheme contains a surplus that is non-recoverable.

6. Retirement Benefits continued

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2002								
Equities	8.30	237	7.00-12.00	98	N/A	N/A	N/A	N/A
Bonds	4.50	855	5.25-12.00	83	N/A	N/A	N/A	N/A
Property	6.40	1	7.00-12.00	2	N/A	N/A	N/A	N/A
Others	4.60	35	1.75-12.00	5	N/A	N/A	N/A	N/A
Total market value of assets		1,128		188		N/A		N/A
Present value of the schemes' liabilities		(1,235)		(268)		(14)		(17)
Deficit*		(107)		(80)		(14)		(17)
Related deferred tax asset		32		23		4		2
Net pension liability		(75)		(57)		(10)		(15)

*No scheme contains a surplus that is non-recoverable.

The pension expense for defined benefit schemes on the FRS17 basis was:

	Funded Defined Benefit Schemes		Unfunded Schemes		
	UK Fund \$million	Overseas Schemes \$million	Post-retirement Medical \$million	Other \$million	Total \$million
Year ending 31 December 2004					
Current service cost	15	24	–	8	47
Past service cost	1	1	–	1	3
Gain on settlement and curtailments	–	(5)	–	–	(5)
Total charge to operating profit	16	20	–	9	45
Expected return on pension scheme assets	(91)	(29)	–	–	(120)
Interest on pension scheme liabilities	84	23	1	2	110
Charge to investment income	(7)	(6)	1	2	(10)
Total charge to profit before deduction of tax	9	14	1	11	35
Gain on assets*	(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 Total Recognised					
Gains and Losses before tax	3	4	(1)	(1)	5
Deferred taxation	(1)	–	–	–	(1)
Total loss/(gain) after tax	2	4	(1)	(1)	4

*In excess of expected return.

6. Retirement Benefits continued

	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post- retirement Medical \$million	Other \$million	
Year ending 31 December 2003					
Current service cost	11	22	–	4	37
Past service cost	(2)	–	–	8	6
Gain on settlement and curtailments	–	(5)	–	–	(5)
Total charge to operating profit	9	17	–	12	38
Expected return on pension scheme assets	(59)	(14)	–	–	(73)
Interest on pension scheme liabilities	69	15	1	1	86
Charge to investment income	10	1	1	1	13
Total charge to profit before deduction of tax	19	18	1	13	51
Gain on assets*	(42)	(25)	–	–	(67)
Experience loss/(gain) on liabilities	15	(5)	(3)	2	9
Loss on change of assumptions	109	10	1	3	123
Total loss/(gain) recognised in Statement of Total Recognised					
Gains and Losses before tax	82	(20)	(2)	5	65
Deferred taxation	(25)	6	1	(2)	(20)
Total loss/(gain) after tax	57	(14)	(1)	3	45

*In excess of expected return.

Movement in the pension schemes and post-retirement medical deficit during the year comprise:

	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post- retirement Medical \$million	Other \$million	
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 (loss)/gain	(3)	(4)	1	1	(5)
Exchange rate adjustment	(6)	(1)	–	(1)	(8)
Deficit at 31 December 2004	(83)	(17)	(11)	(45)	(156)

	Funded Defined Benefit Schemes		Unfunded Schemes		Total \$million
	UK Fund \$million	Overseas Schemes \$million	Post- retirement Medical \$million	Other \$million	
Deficit at 1 January 2003	(107)	(80)*	(14)	(17)*	(218)*
Contributions	139	33	1	1	174
Current service cost	(11)	(22)	–	(4)	(37)
Past service cost	2	–	–	(8)	(6)
Settlement/curtailment costs	–	5	–	–	5
Other finance income/(charge)	(10)	(1)	(1)	(1)	(13)
Actuarial (loss)/gain	(82)	20	2	(5)	(65)
Exchange rate adjustment	(10)	(2)	–	(1)	(13)
Deficit at 31 December 2003	(79)	(47)	(12)	(35)	(173)

*These numbers have been restated to include a number of smaller arrangements excluded on grounds of materiality from last year's transitional reporting under FRS17.

6. Retirement Benefits continued

The history of experience gains and losses for the financial year is as follows:

	2004	2003	2002
(Gain)/loss on scheme assets:			
Amount (\$million)	(22)	(67)	99
% of scheme assets at end of year	1.15%	4.02%	7.52%
Experience (gain)/loss on scheme liabilities:			
Amount (\$million)	(2)	9	(29)
% of scheme liabilities at end of year	0.10%	0.49%	1.91%
Total actuarial loss recognised in statement of total recognised gains and losses:			
Amount (\$million)	5	65	154
% of scheme liabilities at end of year	0.24%	3.56%	10.12%

7. Depreciation and Amortisation

	2004 \$million	2003 \$million
Goodwill	181	134
Premises	40	43
Equipment	199	204
	420	381

8. Directors and Officers

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 54 to 67.

Transactions with directors, officers and others

As at 31 December 2004, 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:

	Number	2004 \$000	Number	2003 \$000
Directors	—	—	3	21
Officers*	7	2,396	12	6,373

*For this disclosure, the term 'directors' means the directors of Standard Chartered PLC and the directors of Standard Chartered Bank and the term 'officers' means the company secretary and band 1 senior management.

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.

Further details of the transaction can be found in note 23 to the 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 Listing Rules of the Stock Exchange of Hong Kong.

9. Taxation

	2004 \$million	2003* \$million
Analysis of taxation charge in the period		
The charge for taxation based upon the profits for the period comprises:		
United Kingdom corporation tax at 30 per cent (2003: 30 per cent):		
Current tax on income for the year	407	353
Adjustments in respect of prior periods	17	(34)
Double taxation relief	(357)	(286)
Foreign tax:		
Current tax on income for the period	559	491
Adjustments in respect of prior periods	(14)	(26)
Total current tax	612	498
Deferred tax:		
Origination/reversal of timing differences – current year	38	7
Adjustments in respect of prior periods	(13)	(8)
	25	(1)
Tax on profits on ordinary activities	637	497
Effective tax rate	29.5%	32.1%

*Comparative restated (see note 54 on page 118).

Overseas taxation includes taxation on Hong Kong profits of \$122 million (2003: \$134 million) provided at a rate of 17.5 per cent (2003: 17.5 per cent) on the profits assessable in Hong Kong. The Group's total deferred tax asset is \$322 million at 31 December 2004, (2003: \$339 million). \$276 million (2003: \$290 million) is disclosed in other assets. The balance of \$46 million in December 2004 (2003: \$49 million) represents the deferred tax on pension liabilities, so is offset against the pension liabilities amount included in other liabilities.

The current 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:

	2004 \$million	2003* \$million
Current tax reconciliation:		
Profit on ordinary activities before taxation	2,158	1,550
Current tax at 30 per cent (2003: 30 per cent)	648	465
Effects of:		
Goodwill amortisation not deductible for tax purposes	54	39
(Lower)/higher taxes on overseas earnings	(12)	60
One-off adjustments on incorporation of Hong Kong branch	(25)	–
Non-allowable depreciation	6	6
Adjustments to tax charge in respect of previous periods	3	(59)
Capital gains against which losses have been applied	(36)	–
Other items	(26)	(13)
Total current taxation charge	612	498

*Comparative restated (see note 54 on page 118).

10. Dividends on Non-equity Preference Shares

	2004 \$million	2003 \$million
Non-cumulative irredeemable preference shares:		
7½ per cent preference shares of £1 each	14	12
8¼ per cent preference shares of £1 each	15	13
Non-cumulative redeemable preference shares:		
8.9 per cent preference shares of \$5 each	29	30
	58	55

11. Dividends on Ordinary Equity Shares

	2004		2003	
	Cents per share	\$million	Cents per share	\$million
Interim	17.06	201	15.51	182
Final	40.44	524	36.49	429
	57.50	725	52.00	611

The 2004 final dividend of 40.44 cents per share will be paid in either sterling, Hong Kong dollars or US dollars on 13 May 2005 to shareholders on the UK register of members at the close of business on 25 February 2005 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 25 February 2005. 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 dividend. Details of the dividend will be sent to shareholders on or around 14 March 2005.

12. Earnings per Ordinary Share

	2004			2003*		
	Profit \$million	Average number of shares ('000)	Amount per share	Profit \$million	Average number of shares ('000)	Amount per share
Basic earnings per ordinary share						
Profit attributable to ordinary shareholders	1,421	1,172,921		969	1,167,333	
Premium and costs paid on repurchase of preference shares	–	–		(12)	–	
Basic earnings per ordinary share	1,421	1,172,921	121.2c	957	1,167,333	82.0c
Effect of dilutive potential ordinary shares						
Convertible bonds	23	34,488		21	34,488	
Options	–	3,444		–	6,161	
Diluted earnings per ordinary share	1,444	1,210,853	119.3c	978	1,207,982	81.0c

*Comparative restated (see note 54 on page 118).

Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in Financial Reporting Standard 14. The following table shows the calculation of normalised earnings per share, i.e. based on the Group's results excluding amortisation of goodwill, profits/losses of a capital nature and profits/losses on repurchase of preference share capital.

	2004 \$million	2003* \$million
Profit attributable to ordinary shareholders, as above	1,421	957
Amortisation of goodwill	181	134
Premium and costs paid on repurchase of preference shares	–	12
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	–
	(85)	–
Profits less losses on disposal of investment securities	(33)	(62)
Profit on sale of tangible fixed assets	(4)	–
Profit on disposal of subsidiary undertakings	(4)	–
Amounts written off fixed asset investments	1	11
Normalised earnings	1,477	1,052
Normalised earnings per ordinary share	125.9c	90.1c

* Comparative restated (see note 54 on page 118).

13. Treasury Bills and Other Eligible Bills

	2004 \$million	2003 \$million
Dealing securities	236	156
Investment securities	4,189	5,533
Total treasury bills and other eligible bills	4,425	5,689

The estimated market value of treasury bills and similar securities held for investment purposes amounted to \$4,188 million (2003: \$5,541 million).

Treasury bills and other eligible bills include \$nil (2003: \$86 million) of bills sold subject to sale and repurchase transactions.

The change in the book amount of treasury bills and similar securities held for investment purposes comprised:

	Historical cost \$million	Amortisation of discounts/ premiums \$million	Book amount \$million
At 1 January 2004	5,485	48	5,533
Exchange translation differences	17	3	20
Acquisitions	9,396	–	9,396
Maturities and disposals	(10,775)	(3)	(10,778)
Amortisation of discounts and premiums	–	18	18
At 31 December 2004	4,123	66	4,189

At 31 December 2004, unamortised discounts on treasury bills and similar securities held for investment purposes amounted to \$1 million (2003: \$11 million) and there were \$1 million unamortised premiums (2003: \$1 million).

14. Loans and Advances to Banks

	2004 \$million	2003 \$million
Repayable on demand	2,272	3,826
With a residual maturity of:		
Three months or less	9,031	4,950
Between three months and one year	4,445	3,350
Between one and five years	2,563	705
Over five years	675	592
	18,986	13,423
Provisions for bad and doubtful debts (note 17)	(52)	(59)
Interest in suspense (note 18)	(12)	(10)
	18,922	13,354

Loans and advances to banks include balances with central banks and other regulatory authorities amounting to \$1,806 million (2003: \$1,361 million) which are required by local statute and regulation.

15. Loans and Advances to Customers

	2004 \$million	2003 \$million
Repayable on demand	7,384	7,181
With a residual maturity of:		
Three months or less	20,616	16,321
Between three months and one year	9,713	8,308
Between one and five years	13,617	12,429
Over five years	22,536	18,144
	73,866	62,383
Specific provisions for bad and doubtful debts (note 17)	(1,373)	(1,602)
General provisions (note 17)	(335)	(425)
Interest in suspense (note 18)	(562)	(612)
	71,596	59,744

There are loans of \$4 million (2003: \$4 million) which are subordinated to the claims of other parties.

The Group's exposure to credit risk is concentrated in Hong Kong 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 Hong Kong residents of approximately \$12.2 billion (2003: \$12.0 billion).

The following table shows loans and advances to customers by each principal category of borrower's business or industry:

	One year or less \$million	One to five years \$million	Over five years \$million	2004 Total \$million	2003* Total \$million
Consumer Banking:					
Mortgages	1,877	4,156	15,985	22,018	20,289
Other	5,241	3,876	403	9,520	8,961
Small and medium enterprises	989	440	2,050	3,479	2,406
Consumer Banking	8,107	8,472	18,438	35,017	31,656
Agriculture, forestry and fishing	568	80	8	656	700
Construction	531	62	22	615	409
Commerce	5,760	492	73	6,325	5,268
Electricity, gas and water	751	233	410	1,394	967
Financing, insurance and business services	6,776	1,153	1,001	8,930	5,742
Loans to governments	1,819	127	159	2,105	1,110
Mining and quarrying	929	358	240	1,527	731
Manufacturing	7,197	1,100	1,029	9,326	8,360
Commercial real estate	1,441	674	11	2,126	1,864
Transport, storage and communication	1,406	683	873	2,962	2,755
Other	492	183	273	948	607
Wholesale Banking	27,670	5,145	4,099	36,914	28,513
General provision				(335)	(425)
				71,596	59,744

*The analysis of net loans and advances to customers for Consumer and Wholesale Banking at 31 December 2003 has been restated to separately disclose small and medium enterprises within Consumer Banking. This has resulted in a transfer of \$514 million from the Wholesale Banking portfolio to Consumer Banking. There was no impact on total net loans and advances to customers.

16. Assets Leased to Customers

	2004 \$million	2003 \$million
Finance leases	181	270
Instalment credit agreements	1,052	867
	1,233	1,137

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 \$111 million (2003: \$146 million).

The aggregate amounts of leasing income receivable, including capital repayments, under finance leases amounted to \$189 million (2003: \$203 million).

17. Provisions for Bad and Doubtful Debts

	Specific \$million	2004 General \$million	Specific \$million	2003 General \$million
Provisions held at 1 January	1,661	425	1,824	468
Exchange translation differences	15	–	33	–
Amount utilised	–	(39)	–	(33)
Amounts written off	(607)	–	(910)	–
Recoveries of amounts previously written off	95	–	84	–
Other	(8)	4	84	–
New provisions	609	–	904	–
Recoveries/provisions no longer required	(340)	(55)	(358)	(10)
Net charge against profit	269	(55)	546	(10)
Provisions held at 31 December	1,425	335	1,661	425

The following table shows specific provisions by each principal category of borrower's business or industry:

	2004 \$million	2003 \$million
Loans to individuals:		
Mortgages	61	85
Other	67	56
Small and medium enterprises	17	7
Consumer Banking	145	148
Agriculture, forestry and fishing	39	22
Construction	40	47
Commerce	386	469
Electricity, gas and water	11	17
Financing, insurance and business services	101	78
Loans to governments	44	–
Mining and quarrying	34	24
Manufacturing	435	618
Commercial real estate	3	23
Transport, storage and communication	49	62
Other	86	94
Wholesale Banking	1,228	1,454
Provisions for bad and doubtful debts against loans and advances to customers (note 15)	1,373	1,602
Provisions for bad and doubtful debts against loans and advances to banks (note 14)	52	59
Total provisions for bad and doubtful debts	1,425	1,661

18. Interest in Suspense

	2004 \$million	2003 \$million
At 1 January	725	853
Exchange translation differences	17	(4)
Withheld from profit	61	135
Amounts written off	(195)	(259)
Other	6	–
At 31 December	614	725
Total interest in suspense relating to:		
Loans and advances to customers (note 15)	562	612
Loans and advances to banks (note 14)	12	10
Prepayments and accrued income	40	103
	614	725

19. Non-performing Loans

	SCNB (LMA) \$million	Other \$million	2004 Total \$million	SCNB (LMA) \$million	Other \$million	2003 Total \$million
Loans and advances on which interest is suspended	351	2,552	2,903	772	3,031	3,803
Specific provisions for bad and doubtful debts	(115)	(1,310)	(1,425)	(112)	(1,549)	(1,661)
Interest in suspense	–	(574)	(574)	–	(622)	(622)
	236	668	904	660	860	1,520

The Group acquired Standard Chartered Nakornthon Bank (SCNB) (formerly Nakornthon Bank) in September 1999. Under the terms of the acquisition, non-performing loans (NPLs) of THB38.75 billion (\$998 million) were subject to a Loan Management Agreement (LMA) with the Financial Institutions Development Fund (FIDF), a Thai Government agency. Under the LMA, the FIDF has guaranteed the recovery of a principal amount of the NPLs of THB23 billion (\$592 million). The LMA also provides, inter alia, for loss sharing arrangements whereby the FIDF will bear up to 85 per cent of losses in excess of the

guaranteed amount. The guarantee from FIDF is being progressively settled with the final settlement expected in early 2005. The carrying cost of the NPLs is reimbursable by the FIDF to SCNB every half year for a period of five years from the date of acquisition.

Excluding the SCNB non-performing loan portfolio, subject to the LMA, specific provisions and interest in suspense together cover 74 per cent (2003: 72 per cent) of total non-performing lending to customers.

	Customers \$million	Banks \$million	2004 Total \$million	Customers \$million	Banks \$million	2003 Total \$million
Gross loans and advances on which interest is suspended	58	2	60	104	–	104
Gross loans and advances on which provisions have been raised	2,726	117	2,843	3,535	164	3,699
Total gross loans and advances on which interest is suspended	2,784	119	2,903	3,639	164	3,803

Income suspended in the period amounted to \$117 million (2003: \$206 million). Income recognised in the period was \$56 million (2003: \$71 million).

20. Debt Securities and Other Fixed Income Securities

	Book amount Investment securities \$million	Book amount Dealing securities \$million	Book amount Total debt securities \$million	2004 Valuation Investment securities \$million
Issued by public bodies:				
Government securities	8,206	1,719	9,925	8,231
Other public sector securities	1,263	–	1,263	1,256
	9,469	1,719	11,188	9,487
Issued by banks:				
Certificates of deposit	6,076	82	6,158	6,068
Other debt securities	6,269	777	7,046	6,285
	12,345	859	13,204	12,353
Issued by other issuers:				
Other debt securities	2,895	1,008	3,903	2,900
	2,895	1,008	3,903	2,900
Total debt securities	24,709	3,586	28,295	24,740
Of which:				
Listed on a recognised UK exchange	5,651	–	5,651	5,671
Listed elsewhere	6,700	1,505	8,205	6,723
Unlisted	12,358	2,081	14,439	12,346
	24,709	3,586	28,295	24,740
Book amount investment securities:				
One year or less	14,627			
One to five years	8,107			
More than five years	1,975			
	24,709			

20. Debt Securities and Other Fixed Income Securities continued

	Book amount Investment securities \$million	Book amount Dealing securities \$million	Book amount Total debt securities \$million	2003 Valuation Investment securities \$million
Issued by public bodies:				
Government securities	7,496	819	8,315	7,570
Other public sector securities	476	–	476	478
	7,972	819	8,791	8,048
Issued by banks:				
Certificates of deposit	4,086	65	4,151	4,072
Other debt securities	5,215	353	5,568	5,212
	9,301	418	9,719	9,284
Issued by other issuers:				
Bills discountable with recognised markets	–	17	17	–
Other debt securities	3,528	1,086	4,614	3,489
	3,528	1,103	4,631	3,489
Total debt securities	20,801	2,340	23,141	20,821
Of which:				
Listed on a recognised UK exchange	5,855	–	5,855	5,846
Listed elsewhere	5,298	957	6,255	5,301
Unlisted	9,648	1,383	11,031	9,674
	20,801	2,340	23,141	20,821
Book amount investment securities:				
One year or less	10,993			
One to five years	8,445			
More than five years	1,363			
	20,801			

Debt securities include \$1,068 million (2003: \$559 million) of securities sold subject to sale and repurchase transactions, and \$114 million (2003: \$698 million) which are subordinated to the claims of other parties.

The valuation of listed investments is at market value and of unlisted investments at directors' estimate.

The change in the book amount of debt securities held for investment purposes comprised:

	Historical cost \$million	Amortisation of discounts/ premiums \$million	Book amount \$million
At 1 January 2004	20,791	10	20,801
Exchange translation differences	(35)	19	(16)
Acquisitions	75,353	–	75,353
Maturities and disposals	(71,499)	47	(71,452)
Amortisation of discounts and premiums	–	23	23
At 31 December 2004	24,610	99	24,709

At 31 December 2004, unamortised premiums on debt securities held for investment purposes amounted to \$135 million (2003: \$163 million) and unamortised discounts amounted to \$356 million (2003: \$366 million).

21. Equity Shares and Other Variable Yield Securities

	Book amount Investment securities \$million	2004 Valuation Investment securities \$million	Book amount Investment securities \$million	2003 Valuation Investment securities \$million
Listed on a recognised UK exchange	–	–	1	1
Listed elsewhere	88	107	261	353
Unlisted	165	188	97	97
	253	295	359	451
One year or less	10	10	14	14
One to five years	35	35	40	44
More than five years	1	1	–	–
Undated	207	249	305	393
	253	295	359	451

The valuation of listed securities is at market value and of unlisted securities at directors' estimate.

Income from listed equity shares amounted to \$4 million (2003: \$5 million) and income from unlisted equity shares amounted to \$7 million (2003: \$9 million).

The change in the book amount of equity shares held for investment purposes comprised:

	Historical cost \$million	Provisions \$million	Book amount \$million
At 1 January 2004	398	(39)	359
Exchange translation differences	2	(1)	1
Acquisitions	121	–	121
Disposals	(207)	(7)	(214)
Other	(13)	(1)	(14)
At 31 December 2004	301	(48)	253

22. Investments in Subsidiary Undertakings

	Historical cost \$million	Revaluation reserve \$million	Loans \$million	Total* \$million
At 1 January 2004 previously published	4,243	3,662	1,568	9,473
Prior year adjustment (note 54)	–	(186)	–	(186)
At 1 January 2004 restated	4,243	3,476	1,568	9,287
Exchange translation differences	2	–	20	22
Increase in net assets of subsidiary undertakings	–	932	–	932
Disposals	(1)	–	–	(1)
At 31 December 2004	4,244	4,408	1,588	10,240

*Comparative restated (see note 54 on page 118).

22. Investments in Subsidiary Undertakings continued

At 31 December 2004, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100%
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100%
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100%
Standard Chartered Nakornthon Bank Public Company Limited, Thailand	Thailand	75%
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	United Kingdom	100%

Details of all Group companies will be filed with the next annual return of the Company.

23. Business Acquisitions

Summary of the cash flow effects of acquisitions of subsidiary undertakings, joint ventures and businesses

	Book value at date of acquisition \$million	Fair value adjustments \$million	Revaluations \$million	Fair value at date of acquisition \$million
Tangible fixed assets	12	(1)	–	11
Loans and advances to banks and customers	1,518	–	–	1,518
Treasury bills and other eligible bills	131	–	–	131
Equity shares	(18)	–	–	(18)
Interests in joint ventures	192	–	–	192
Cash and balances at central banks	26	–	–	26
Other assets	90	(8)	–	82
Total assets	1,951	(9)	–	1,942
Deposits by banks and customer accounts	940	–	–	940
Other liabilities	754	–	–	754
Total liabilities	1,694	–	–	1,694
Net assets				248
Minority interests				(8)
Goodwill				93
				333
Consisting of:				
Cash				328
Acquisition costs				5
				333

23. Business Acquisitions continued

	Total \$million
Post acquisition profit after taxation	6
Cash flow effects of acquisitions:	
Net cash outflow from operating activities	2
	2
Purchase of interests in subsidiary undertakings:	
Cash and acquisition costs	333
Cash acquired	(26)
	307

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 above include the additional 25 per cent stake in Standard Chartered Bank Nepal Limited, 100 per cent ownership of Advantage Limited, the 31.555 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. Purchased goodwill is being amortised over 10 years. The post-acquisition profit after taxation and minority interests was \$1 million.

The effective date of acquisition of Advantage Limited ('Advantage') was 27 August 2004. It has been accounted for using the acquisition method. Purchased goodwill is being amortised over 10 years. The post acquisition profit after taxation of Advantage was \$4 million.

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 payable on 31 December 2005. The consideration will be 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. Purchased goodwill is being amortised over 20 years. The acquisition is being equity accounted as a joint venture. The Group's share of post acquisition profits after amortisation of goodwill and taxation was \$2 million.

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. Purchased goodwill is being amortised over 10 years. The post-acquisition loss after taxation was \$1 million, including integration expenses of \$2 million and amortisation of goodwill.

24. Intangible Fixed Assets

	Goodwill \$million
Cost	
At 1 January 2004	2,500
Movements during the year	95
At 31 December 2004	2,595
Provisions for amortisation	
At 1 January 2004	514
Amortisation charged in the year	181
At 31 December 2004	695
Net book value at 31 December 2004	1,900
Net book value at 31 December 2003	1,986

24. Intangible Fixed Assets continued

Purchased goodwill in respect of acquisitions post 1 January 1998 is being amortised on a straight-line basis over a period of between 10 and 20 years. Prior to 1998 purchased goodwill was written off through reserves in the year of acquisition. Movements during the year related to the acquisition of PrimeCredit, Standard Chartered Bank Nepal Limited and the ANZ Project Finance business.

25. Tangible Fixed Assets

	Premises \$million	Equipment \$million	Total \$million
Cost or valuation			
At 1 January 2004	605	894	1,499
Exchange translation differences	7	13	20
Additions	131	109	240
Disposals and fully depreciated assets written off	(67)	(182)	(249)
Other	9	1	10
At 31 December 2004	685	835	1,520
Depreciation			
Accumulated at 1 January 2004	129	486	615
Exchange translation differences	2	9	11
Charge for the year	40	199	239
Attributable to assets sold or written off	(21)	(177)	(198)
Other	2	5	7
Impairment	2	–	2
Accumulated at 31 December 2004	154	522	676
Net book value at 31 December 2004	531	313	844
Net book value at 31 December 2003	476	408	884

	2004 \$million	2003 \$million
Premises – analysis of net book value		
Freehold	140	153
Long leasehold	75	75
Short leasehold	316	248
	531	476
Premises – cost or valuation		
At cost	289	197
At valuations made:		
1999	13	13
2002	383	395
	685	605
On the historical cost basis, the book amount of premises amounted to:		
Cost	731	660
Accumulated depreciation	(179)	(166)
Net book value	552	494

Valuations were carried out on an open market existing use basis by the directors based upon the advice of independent qualified professional valuers. The net book value of premises occupied by the Group for its own activities at 31 December 2004 was \$454 million (2003: \$476 million). Cost or valuation of premises subject to depreciation at 31 December 2004 was \$595 million (2003: \$499 million).

26. Future Rental Commitments Under Operating Leases

The Group's future annual rental commitments under operating leases are as follows:

	Premises \$million	2004 Equipment \$million	Premises \$million	2003 Equipment \$million
Annual rental on operating leases expiring:				
Within one year	14	1	10	6
Between one and five years	27	1	35	4
Five years or more	19	—	26	—
	60	2	71	10

The majority of leases relating to premises are subject to rent reviews.

27. Other Assets

	2004 \$million	2003* \$million
Mark-to-market adjustments arising on foreign exchange and interest rate contracts	7,318	7,778
Hong Kong SAR Government certificates of indebtedness (note 32 and note 43)	2,532	2,249
Assets awaiting sale	4	1
Deferred taxation (note 33)	276	290
Other	1,599	1,678
	11,729	11,996

*Comparative restated (see note 54 on page 118).

The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties.

28. Deposits by Banks

	2004 \$million	2003 \$million
Repayable on demand	2,588	3,894
With agreed maturity dates or periods of notice, by residual maturity:		
Three months or less	8,963	5,057
Between three months and one year	2,268	1,502
Between one and five years	1,994	446
Over five years	—	25
	15,813	10,924

The deposits by banks over five years at 31 December 2003 are on a fixed rate charge. \$6 million is charged at 3 per cent and \$19 million at 5.56 per cent.

29. Customer Accounts

	2004 \$million	2003 \$million
Repayable on demand	36,862	31,619
With agreed maturity dates or periods of notice, by residual maturity:		
Three months or less	40,842	35,789
Between three months and one year	5,626	5,615
Between one and five years	1,204	742
Over five years	38	2
	84,572	73,767

30. Debt Securities in Issue

	2004			2003		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
By residual maturity:						
Three months or less	1,707	1,834	3,541	1,711	612	2,323
Between three and six months	701	206	907	487	52	539
Between six months and one year	637	475	1,112	1,030	59	1,089
Between one and five years	1,013	724	1,737	1,552	459	2,011
Over five years	21	60	81	13	87	100
	4,079	3,299	7,378	4,793	1,269	6,062

31. Structure of Deposits

The following table sets out the structure of the Group's deposits by principal geographic regions where it operates at 31 December 2004 and 31 December 2003:

	2004 \$million	2003 \$million
Deposits by banks (note 28)	15,813	10,924
Customer accounts (note 29)	84,572	73,767
Debt securities in issue (note 30)	7,378	6,062
	107,763	90,753

	Asia Pacific					MESA			Americas, UK & Group Head Office	2004 Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million		
Non-interest bearing current and demand accounts	3,602	2,040	989	1,228	1,224	1,114	1,146	1,159	16	12,518
Interest bearing current and demand accounts	15,300	2,329	130	2,831	2	661	429	1,603	3,920	27,205
Savings deposits	24	528	437	1,715	970	249	1,350	512	9	5,794
Time deposits	13,155	9,847	3,423	6,189	3,441	2,529	1,657	679	10,410	51,330
Other deposits	2	50	569	894	2	187	215	69	1,550	3,538
Total	32,083	14,794	5,548	12,857	5,639	4,740	4,797	4,022	15,905	100,385
Deposits by banks (note 28)	1,204	3,150	813	3,361	1,109	1,007	355	110	4,704	15,813
Customer accounts (note 29)	30,879	11,644	4,735	9,496	4,530	3,733	4,442	3,912	11,201	84,572
	32,083	14,794	5,548	12,857	5,639	4,740	4,797	4,022	15,905	100,385
Debt securities in issue (note 30)	1,508	758	401	1,063	387	–	–	1	3,260	7,378
Total	33,591	15,552	5,949	13,920	6,026	4,740	4,797	4,023	19,165	107,763

	Asia Pacific					MESA			Americas, UK & Group Head Office	2003 Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million		
Non-interest bearing current and demand accounts	2,997	1,814	781	944	1,049	775	920	867	433	10,580
Interest bearing current and demand accounts	14,294	1,538	94	1,906	3	599	325	991	3,863	23,613
Savings deposits	22	492	453	978	786	214	1,080	520	4	4,549
Time deposits	12,671	7,751	2,833	4,993	2,987	2,108	1,480	749	8,105	43,677
Other deposits	16	45	593	803	230	169	246	150	20	2,272
Total	30,000	11,640	4,754	9,624	5,055	3,865	4,051	3,277	12,425	84,691
Deposits by banks (note 28)	1,097	921	733	1,725	1,234	955	305	160	3,794	10,924
Customer accounts (note 29)	28,903	10,719	4,021	7,899	3,821	2,910	3,746	3,117	8,631	73,767
	30,000	11,640	4,754	9,624	5,055	3,865	4,051	3,277	12,425	84,691
Debt securities in issue (note 30)	2,068	346	351	783	87	–	–	1	2,426	6,062
Total	32,068	11,986	5,105	10,407	5,142	3,865	4,051	3,278	14,851	90,753

32. Other Liabilities

	2004 \$million	2003* \$million
Mark-to-market adjustments arising on foreign exchange and interest rate contracts	7,077	7,792
Notes in circulation (note 27 and note 43)	2,532	2,249
Short positions in treasury bills	2	73
Short positions in debt securities	751	461
Current taxation	295	225
Proposed dividend	532	439
Other liabilities	5,172	2,745
	16,361	13,984

*Comparative restated (see note 54 on page 118).

Short positions in treasury bills and short positions in debt securities are stated at market value.

33. Deferred Taxation

	2004 \$million	2003 \$million
Deferred taxation comprises:		
Accelerated tax depreciation	(7)	14
Provisions for bad debts	(144)	(180)
Tax losses carried forward	(5)	(19)
Premises revaluation	(5)	(1)
Unrealised foreign tax	(21)	(8)
Pension	(46)	(48)
Other timing differences	(94)	(97)
	(322)	(339)
Changes in deferred taxation balances during the year comprised:		
At 1 January	(339)	(236)
Exchange translation differences	(14)	(21)
Origination/reversal of timing differences	25	(1)
Credit to profit	(1)	–
Impact of FRS17 restatement (note 54)	–	(68)
Other	7	(13)
At 31 December	(322)	(339)

\$276 million (2003: \$290 million) of the net deferred tax asset is included in other assets (note 27), the balance of \$46 million (2003: \$49 million) is included in pension and post-retirement net of deferred tax (see note 6).

	2004 \$million	2003 \$million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Tax losses carried forward	4	26
Provisions for bad debts	20	20
Other	35	10
Unrelieved foreign tax	178	143
Premises revaluation	(16)	(16)

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future. As it is expected that substantially all such assets will be retained by the Group, it is considered that no useful purpose would be served by attempting to quantify the unprovided potential liability.

34. Provisions for Liabilities and Charges

	Provision for contingent liabilities and commitments \$million	Other provisions \$million	Total \$million
At 1 January 2004	41	5	46
Exchange translation differences	4	–	4
Charge against profit	–	14	14
Provisions utilised	–	(6)	(6)
Other	7	(6)	1
At 31 December 2004	52	7	59

35. Pension and Post Retirement Liabilities (net of deferred tax)

	2004 \$million
At 1 January 2004	(74)
Prior year adjustment (see note 54)	202
	128
Exchange translation differences	9
Change against profit	82
Provision utilised	(110)
Other	11
At 31 December 2004	120

Included in Pension and Post Retirement Liabilities is \$10 million (2003: \$4 million) relating to defined contribution plans.

36. Subordinated Loan Capital

	2004 \$million	2003* \$million
Undated – Company		
Primary Capital Floating Rate Notes:		
\$400 million	400	400
\$300 million (Series 2)	300	300
\$400 million (Series 3)	400	400
\$200 million (Series 4)	200	200
£150 million	288	268
Undated subordinated loan capital – Group	1,588	1,568
Dated – Subsidiary undertakings		
£30 million Floating Rate Notes 2009	57	53
£300 million 6.75 per cent Notes 2009	517	480
€600 million 5.375 per cent Notes 2009	730	676
\$25 million Floating Rate Notes 2004/2009	–	25
BWP 75 million Floating Rate Notes 2012	18	17
\$325 million Floating Rate Notes 2005/2010	313	312
€575 million 4.5 per cent Notes 2010	771	714
\$700 million 8.0 per cent subordinated Notes 2031	620	621
€500 million 8.16 per cent non-cumulative Trust Preferred Securities 2010	674	624
£300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities	572	531
£200 million Step-Up Notes 2022	373	346
\$350 million 4.375 per cent Notes 2014 (Floating rate from 2009)	350	–
HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)	64	–
HKD 670 million Floating Rate Notes 2014	85	–
Dated subordinated loan capital – Group	5,144	4,399
Dated subordinated loan capital – Repayable:		
Within one year	1,084	25
Between one and two years	–	1,026
Between two and five years	1,805	–
Over five years	2,255	3,348
Dated subordinated loan capital – Group	5,144	4,399
Total subordinated liabilities	6,732	5,967

*Comparative restated (see note 54 on page 118).

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.

On 17 March 2000, the Group issued at par €575 million of 4.5 per cent Subordinated Guaranteed Convertible Bonds via a Jersey incorporated subsidiary, Standard Chartered Finance (Jersey) Ltd. The bondholders have the right to convert each bond (denominated in units of €1,000 face value) into one fully paid €1,000 Preference Share in Standard Chartered Finance (Jersey) Ltd at any time on or after 26 April 2000. These will be exchanged immediately for ordinary shares in Standard Chartered PLC at a price of 1,018.70 pence per ordinary share (the 'exchange price', which is subject to adjustment as set out in the offering circular). Unless previously redeemed, purchased and cancelled

or converted, bonds will be redeemed on 30 March 2010, although they may be redeemed at Standard Chartered's option after 15 April 2005. They may be redeemed earlier if 85 per cent of the bonds have been converted.

On 11 May 2001, the Group issued Tier 1 Capital £300 million of 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities. These are redeemable at the option of Standard Chartered Bank ('the Bank') on 11 May 2016 or on any coupon payment date thereafter. Dividends are set at a rate of 8.103 per cent per annum until 2016. Thereafter they will be reset every five years as the aggregate of 4.275 per cent and the five year benchmark gilt-rate. The preferred securities may, at the Bank's option, be either exchanged or their terms varied so that they become Upper Tier 2 securities, upon the occurrence of certain tax or regulatory events.

36. Subordinated Loan Capital continued

On 22 March 2000, the Group issued Tier 1 Capital €500 million of 8.16 per cent Non-cumulative Trust Preferred Securities in Standard Chartered Capital Trust LLP, a Delaware statutory business trust, representing a corresponding amount of 8.16 per cent Non-cumulative Partnership Preferred Securities of Standard Chartered Capital LLP, a Delaware limited partnership in which Standard Chartered Bank ('the Bank') is the general partner. The securities may be redeemed at the option of the Bank in its capacity as general partner of the Partnership in whole or (in certain circumstances) in part on 23 March 2010 or in whole or in part on any dividend payment date thereafter. Dividends are fixed at 8.16 per cent for ten years and at Euribor plus 3.8 per cent thereafter. The securities will be exchanged for preference shares in Standard Chartered PLC in the event that they have not been redeemed by 2045, the Bank's or Group's total capital ratio is less than the regulatory minimum or the Partnership is liquidated. The holders of the securities will have the right, subject to the Partnership's right of redemption, to exchange their securities for the cash proceeds of a sale of ordinary shares of Standard Chartered PLC on 23 March 2010.

On 30 October 2000, the Group issued £200 million Undated Subordinated Step-Up Notes. These are redeemable at the option of the Bank at par on 31 January 2022. The coupon is 7.75 per cent fixed until 31 January 2022, when the rate will be re-fixed.

The Group policy is to manage its capital actively. During 2002 the Group bought back a portion of its subordinated debt issues on the open market. The amounts stated are net of the repurchases.

On 3 December 2004, the Group issued \$350 million notes at 99.938 per cent. Interest is payable on the notes at 4.375 per cent Fixed Rate to, but excluding, 4 December 2009 and at Floating Rate thereafter. All of the notes may be redeemed by the Group on any interest payment date from and including 4 December 2009.

There is not an option to redeem anything less than 100 per cent of the notes. The notes will mature on 3 December 2014.

On 3 December 2004, the Group issued HKD 670 million Floating Rate Notes at par. Interest is payable at HIBOR plus 37 basis points up until 4 December 2009, when the rate increases to HIBOR plus 87 basis points. All of the Notes may be redeemed by the Group on the interest payment date on 4 December 2009. There is not an option to redeem anything less than 100 per cent of the notes. The notes will mature on 3 December 2014.

On 3 December 2004, the Group issued HKD 500 million notes at 99.886 per cent. Interest is payable on the notes at 3.50 per cent Fixed Rate to, but excluding, the interest payment date on 4 December 2009 and at Floating Rate thereafter. All of the notes may be redeemed by the Group on the interest payment date falling in December 2009. There is not an option to redeem anything less than 100 per cent of the notes. The notes will mature on 3 December 2014.

\$25 million Floating Rate Notes 2004/2009 were redeemed in July 2004.

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 subordinated Lower Tier II notes ('Dollar Notes') at an issue price of 99.86 per cent. Interest is payable annually on the Euro Notes at a fixed rate of 3.625 per cent until 3 February 2012 when variable rate interest of 3 month Euribor plus 87 basis points will be paid. The Euro Notes will mature on 3 February 2017. The Euro Notes are callable on 3 February 2012 and at each subsequent interest date. Interest is payable quarterly on the Dollar Notes at a variable rate of US\$ Libor plus 30 basis points until 4 February 2010 when the rate will increase to Libor plus 80 basis points. The Dollar Notes will mature on 3 February 2015. The Dollar Notes are callable on 4 February 2010 and at each subsequent interest date.

37. Minority Interests

The change in minority shareholders' interests in subsidiary undertakings comprised:

	Equity \$million	Non equity \$million	Total \$million
At 1 January 2004	83	531	614
Exchange translation differences	1	10	11
Additions	–	294	294
Retained profits	15	10	25
Other	12	–	12
At 31 December 2004	111	845	956

Non equity minority interests include third party investments in the Global Liquidity Fund.

38. Called-up Share Capital

Authorised

The authorised share capital of the Company at 31 December 2004 was \$5,137 million (2003: \$4,971 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 shares of €1,000 each.

	Preference shares of \$5 each Number of shares (‘000)	Preference shares of £1 each Number of shares (‘000)	Ordinary shares of \$0.50 each Number of shares (‘000)	Total \$million
Allotted, called-up and fully paid				
At 1 January 2004	331	195,285	1,174,818	939
Exchange translation differences	–	–	–	26
Issued instead of dividends	–	–	2,979	1
Issued under employee share option schemes	–	–	1,272	1
At 31 December 2004	331	195,285	1,179,069	967

On 14 May 2004, 2,066,122 ordinary shares were issued instead of the 2003 final dividend. On 8 October 2004, 912,977 ordinary shares were issued instead of the 2004 interim dividend.

At the AGM in May 2004 the shareholders authorised the Company to buy back up to 117,487,333 of the Company's ordinary shares. This was approximately ten per cent of the issued ordinary share capital as at 23 February 2004. In addition, the shareholders authorised the Company to buy back up to all of the Company's issued preference share capital. Neither the Company nor any of its subsidiaries bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during 2004.

During 2003, the Company repurchased 9,486 8.9 per cent non-cumulative redeemable preference shares of \$5 each at prices between \$1,112.50 and \$1,140.52. The total premium paid on the repurchase was \$10.7 million. The repurchased shares were cancelled leaving 331,388 \$5 preference shares in issue.

During 2003, the Company repurchased 3,965,000 7% per cent non-cumulative irredeemable preference shares of £1 each at prices between £1.12875 and £1.13. The total premium paid on the repurchase was \$0.9 million. The repurchased shares were cancelled leaving 96,035,000 7% per cent preference shares in issue.

During 2003, the Company repurchased 750,000 8¼ per cent non-cumulative irredeemable preference shares of £1 each at £1.22875. The total premium paid on the repurchase was \$0.3 million. The repurchased shares were cancelled leaving 99,250,000 8¼ per cent preference shares in issue.

On 10 January 2005, the Company placed 117,902,943 new ordinary shares of \$0.50 each at a price of 920 pence per share representing approximately 9.99 per cent of the Company's existing issued ordinary share capital. The placees (comprising more than six in number) were professional and institutional investors, independent of and not connected with the Company and its subsidiaries and their respective associates. The shares were issued on 14 January 2005 raising net proceeds of approximately GBP 1,071 million (\$2.1 billion), a net price per share of 908.5 pence. The market price of the Company's

ordinary shares at close of business in London on 10 January 2005 was 928.5 pence. The shares that were issued had an aggregate nominal amount of \$58,981,471.50.

The purpose of the share issue was to aid the funding of the purchase of the entire share capital of Korea First Bank for approximately KRW 3.4 trillion (\$3.3 billion) in cash.

Subject to certain conditions, all or part of the 8.9 per cent non-cumulative preference shares of \$5 each may be redeemed at the option of the issuer at dividend payment dates on or after October 2006.

The £1 and \$5 preference shares carry the right to repayment of capital in the event of a winding up of the Company. They do not carry a right to vote at general meetings unless a dividend is unpaid or a resolution is proposed at the meeting to vary their rights.

Up to 117,481,806 ordinary shares of \$0.50 each, being part of the authorised share capital, may be issued under the employee share schemes.

1984 and 1994 Executive Share Option Schemes

As at 1 January 2004, there were options outstanding over 3,765,364 ordinary shares under the schemes. During the year options over 343,010 ordinary shares lapsed and options over 1,169,405 ordinary shares were exercised at various prices from 256 pence to 888 pence. There were no options granted under these schemes during the year.

As at 31 December 2004, there were options outstanding over 2,252,949 ordinary shares which may be exercised on various dates up to 2009 under the rules of the schemes.

Supplemental Executive Share Option Scheme

As at 1 January 2004, there were options outstanding over 833,946 ordinary shares under the scheme. During the year 454,127 options over ordinary shares lapsed and there were no exercises.

The exercise of these options will be linked to performance criteria.

As at 31 December 2004, there were options outstanding over 379,819 ordinary shares, which may be exercised on various dates up to 2005 under the scheme rules.

38. Called-up Share Capital continued**1997 Restricted Share Scheme**

As at 1 January 2004, there were awards outstanding over 5,562,480 ordinary shares. During the year, awards over 1,491,198 ordinary shares were exercised and awards over 278,383 ordinary shares lapsed.

The following awards were made:

Date award made	Number of shares awarded	Exercise period
4 March 2004	1,362,674	2006–2011
14 September 2004	240,447	2006–2011

As at 31 December 2004, there were awards outstanding over 5,396,020 ordinary shares.

2000 Executive Share Option Scheme

As at 1 January 2004 there were options outstanding over 27,866,978 ordinary shares under the scheme. During the year options over 381,612 ordinary shares lapsed and 2,896,821 ordinary share options were exercised at various prices from 690.5 pence to 935.5 pence.

The following options were granted under the scheme:

Date option granted	Option price per share	Number of shares under option	Exercise period
4 March 2004	935.5p	5,888,950	2007–2014
14 September 2004	958.0p	230,476	2007–2014

The exercise of options granted during the year will be linked to performance criteria.

As at 31 December 2004, there were options outstanding over 30,707,971 ordinary shares which may be exercised at various dates up to 2014 under the rules of the scheme.

2001 Performance Share Plan

At 1 January 2004 there were awards outstanding over 2,633,754 ordinary shares.

The following awards were granted under the Plan:

Date award granted	Number of shares under award	Exercise period
4 March 2004	829,014	2007–2014
9 June 2004	171,011	2007–2014

The awards granted under the 2001 performance share plan are nil cost options. The exercise of awards granted during the year will be linked to performance criteria. During the year awards over 294,420 ordinary shares were exercised and awards over 272,402 ordinary shares lapsed.

At 31 December 2004 there were awards outstanding over 3,066,957 ordinary shares.

Savings Related Share Option Schemes**UK Schemes**

At 1 January 2004, there were options outstanding over 1,532,663 ordinary shares under this scheme. During the year, options were exercised over 271,013 ordinary shares at prices from 334 pence to 723 pence and 146,220 options lapsed. The following options were granted under the scheme:

Date option granted	Option price per share	Number of shares under option	Exercise period
14 September 2004	743p	265,550	2007–2010

At 31 December 2004, there were options outstanding over 1,380,980 ordinary shares, which may be exercised at various dates up to 2010 under the rules of the scheme.

International Schemes

At 1 January 2004, there were 8,021,530 options outstanding under the scheme. During the year, 935,139 options lapsed. Options were exercised over 980,720 ordinary shares at prices from 334 pence to 723 pence and the following options were granted under the scheme:

Date option granted	Option price per share	Number of shares under option	Exercise period
14 September 2004	743p	2,167,399	2007–2010

At 31 December 2004, there were options outstanding over 8,273,070 ordinary shares which may be exercised on various dates up to 2010 under the rules of the scheme.

39. Shareholders' Funds

	Share capital \$million	Share premium account \$million	Capital reserve \$million	Capital redemption reserve \$million	Premises revaluation reserve \$million	Profit and loss account \$million	2004 Total shareholders' funds \$million	2003* Total shareholders' funds \$million
At 1 January as previously published	939	2,813	5	11	(2)	4,009	7,775	7,327
Prior year adjustment (note 54)	–	–	–	–	–	(186)	(186)	(149)
At 1 January restated	939	2,813	5	11	(2)	3,823	7,589	7,178
Exchange translation differences	26	–	–	–	–	67	93	69
Shares issued, net of expenses	2	15	–	–	–	52	69	49
Repurchase of preference shares	–	–	–	–	–	–	–	(20)
Actuarial loss on retirement benefits	–	–	–	–	–	(4)	(4)	(45)
Realised on disposal of property	–	–	–	–	(3)	3	–	–
Retained profit for the year	–	–	–	–	–	696	696	358
Capitalised on exercise of share options	–	7	–	–	–	(7)	–	–
At 31 December before deduction of own shares	967	2,835	5	11	(5)	4,630	8,443	7,589
Own shares held in ESOP Trusts	–	–	–	–	–	(8)	(8)	(60)
At 31 December after deduction of own shares	967	2,835	5	11	(5)	4,622	8,435	7,529
Equity interests							7,759	6,880
Non-equity interests							676	649
At 31 December							8,435	7,529

*Comparative restated (see note 54 on page 118).

The cumulative amount of premiums on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2003: \$27 million). This excludes amounts in respect of businesses sold.

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.

Bedell Cristin Trustees Limited is the 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 trusts. As part of these arrangements Group companies fund, from time to time, the trusts to enable the trustee to acquire shares to satisfy these awards.

The 1995 trust has acquired, at market value, 12,127,841 (2003: 9,513,386) Standard Chartered PLC shares which 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 2004, the 1995 trust held 12,127,841 (2003: 9,513,386) shares, of which 11,854,754 (2003: 4,733,884) have vested unconditionally. The balance of 273,087 (2003: 4,779,502) shares have been included in the Group balance sheet, as a deduction in shareholders' funds at a cost of \$5 million (2003: \$60 million). The market value of the unvested shares at 31 December 2004 was \$5 million (2003: \$79 million). 273,087 (4,585,901) shares have been conditionally gifted to employees.

The 2004 trust has acquired, at market value, 178,926 (2003: nil) 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 2004, the 2004 trust held 178,926 (2003: nil) shares, all of which were unvested. These shares have been included in the Group balance sheet, as a deduction in shareholders' funds, at cost of \$3 million (2003: nil). The market value of the unvested shares at 31 December was \$3 million. The shares are used to satisfy awards under the Group's deferred bonus plan.

40. Company Share Capital and Reserves

	Share capital \$million	Share premium account \$million	Capital reserve \$million	Capital redemption reserve \$million	Revaluation reserve \$million	Profit and loss account \$million	2004 Total shareholders' funds \$million	2003* Total shareholders' funds \$million
At 1 January	939	2,813	5	11	3,662	285	7,715	7,270
Prior year adjustment (note 54)	–	–	–	–	(186)	–	(186)	(149)
	939	2,813	5	11	3,476	285	7,529	7,121
Exchange translation differences	26	–	–	–	–	(2)	24	33
Shares issued, net of expenses	2	15	–	–	–	52	69	49
Repurchase of preference shares	–	–	–	–	–	–	–	(20)
Increase in net assets of subsidiary undertakings	–	–	–	–	932	–	932	505
Profit for the year	–	–	–	–	–	663	663	507
Dividends paid and proposed	–	–	–	–	–	(782)	(782)	(666)
Capitalised on exercise of share options	–	7	–	–	–	(7)	–	–
At 31 December	967	2,835	5	11	4,408	209	8,435	7,529
Equity interests							7,759	6,880
Non-equity interests							676	649
At 31 December							8,435	7,529

*Comparative restated (see note 54 on page 118).

41. Consolidated Cash Flow Statement

(a) Reconciliation between operating profit before taxation and net cash inflow from operating activities	2004 \$million	2003* \$million
Operating profit	2,158	1,550
Items not involving cash flow:		
Amortisation of goodwill	181	134
Depreciation and amortisation of premises and equipment	239	247
Gain on disposal of tangible fixed assets	(4)	(14)
Gain on disposal of investment securities	(164)	(62)
Amortisation of investments	(41)	(107)
Charge for bad and doubtful debts and contingent liabilities	214	536
Amounts written off fixed asset investments	1	11
Debts written off, net of recoveries	(504)	(807)
Increase in accruals and deferred income	59	201
(Increase)/decrease in prepayments and accrued income	(165)	80
Adjustments for items shown separately:		
Net increase in mark-to-market adjustment**	(259)	(403)
Interest paid on subordinated loan capital	338	298
Net cash inflow from trading activities	2,053	1,664
Net increase in cheques in the course of collection	(45)	(27)
Net increase in treasury bills and other eligible bills	(78)	(76)
Net (increase)/decrease in loans and advances to banks and customers	(16,216)	2,398
Net increase in deposits from banks, customer accounts and debt securities in issue	14,927	2,128
Net increase in dealing securities	(1,174)	(1,550)
Net increase/(decrease) in other accounts***	3,036	(789)
Net cash inflow from operating activities	2,503	3,748

*Comparative restated (see note 54 on page 118).

**Mark-to-market adjustments are being reclassified from the reconciliation to 'Net cash inflow from operating activities', to the reconciliation to 'Net cash inflow from trading activities' as this better reflects their impact on cash flows.

***This includes the effects of foreign exchange translation in the local books of subsidiaries and branches.

41. Consolidated Cash Flow Statement continued

(b) Analysis of changes in cash	2004 \$million	2003* \$million
Balance at 1 January	5,661	3,496
Exchange translation differences	56	(7)
Net cash (outflow)/inflow	(1,366)	2,172
Balance at 31 December	4,351	5,661

(c) Analysis of cash	2004 \$million	2003 \$million
Cash and balances at central banks	2,079	1,835
Demand loans and advances to banks	2,272	3,826
	4,351	5,661

(d) Analysis of changes in financing during the year	2004					2003*				
	Share capital \$million	Share premium \$million	Capital reserve \$million	Capital redemption reserve \$million	Loan capital \$million	Share capital \$million	Share premium \$million	Capital reserve \$million	Capital redemption reserve \$million	Loan capital \$million
At 1 January	939	2,813	5	11	5,967	909	2,764	5	3	5,455
Exchange translation differences	26	–	–	–	291	35	–	–	–	512
Share capital issued, net of expenses	2	15	–	–	–	3	46	–	–	–
Repurchase of preferences shares	–	–	–	–	–	(8)	–	–	8	–
Capitalised on exercise of share options	–	7	–	–	–	–	3	–	–	–
Issue of subordinated loan capital, net of expenses	–	–	–	–	499	–	–	–	–	–
Repayment of subordinated liabilities	–	–	–	–	(25)	–	–	–	–	–
Balance at 31 December	967	2,835	5	11	6,732	939	2,813	5	11	5,967

*Comparative restated (see note 54 on page 118).

42. Segmental Information

By Geographic Segment

The following tables set out profit and loss information, average loans and advances to customers, net interest margin and selected balance sheet information by geographic segment for the years ended 31 December 2004 and 2003:

2004

	Asia Pacific					MESA		Americas, UK & Group		Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million	Head Office \$million	\$million
Interest receivable	1,389	720	343	798	541	204	324	536	1,463	6,318
Interest payable	(461)	(408)	(159)	(320)	(254)	(53)	(109)	(185)	(1,201)	(3,150)
Net interest income	928	312	184	478	287	151	215	351	262	3,168
Other finance income	4	1	–	–	–	–	–	4	1	10
Fees and commissions receivable, net	324	114	51	197	111	87	116	153	181	1,334
Dealing profits and exchange	99	81	30	121	67	33	42	74	101	648
Other operating income	53	5	5	19	1	–	4	2	118	207
Net revenue	1,408	513	270	815	466	271	377	584	663	5,367
Costs	(654)	(226)	(144)	(510)	(251)	(99)	(169)	(357)	(405)	(2,815)
Amortisation of goodwill									(181)	(181)
Total operating expenses	(654)	(226)	(144)	(510)	(251)	(99)	(169)	(357)	(586)	(2,996)
Operating profit before provisions	754	287	126	305	215	172	208	227	77	2,371
(Charge) for/release of debts	(125)	(33)	(2)	(40)	(22)	(1)	(1)	(12)	22	(214)
Amounts written off fixed asset investments	–	–	–	–	2	–	–	–	(3)	(1)
Income from joint venture	–	–	–	2	–	–	–	–	–	2
Operating profit before taxation	629	254	124	267	195	171	207	215	96	2,158
Loans and advances to customers										
– average	21,608	10,414	5,272	7,932	3,779	2,582	3,718	1,834	7,421	64,560
Net interest margin (%)	2.2	1.6	2.4	2.5	3.6	2.6	3.5	7.6	0.6	2.7
Loans and advances to customers										
– period end	21,744	11,765	6,374	9,274	4,610	3,132	3,840	2,013	8,844	71,596
Loans and advances to banks										
– period end	2,852	2,399	480	3,554	325	535	932	510	7,335	18,922
Total assets employed	48,459	20,419	7,130	21,424	8,528	6,371	6,493	6,407	52,821	178,052
Total risk weighted assets and contingents	20,337	13,892	4,411	13,344	6,413	4,150	4,611	2,749	24,895	94,802

Total interest receivable and total interest payable include intra-group interest of \$1,086 million. Total assets employed include intra-group items of \$28,801 million and balances of \$7,563 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include \$2,678 million of balances which are netted in the note on Capital ratios on page 42 in accordance with regulatory guidelines.

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 BOC Hong Kong (Holdings) Limited (\$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 Other MESA). These decisions resulted in non-recurring gains and charges of \$85 million. They are included in the Geographical segmental information, but are not allocated to business in the business segmental information shown on page 110.

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. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

42. Segmental Information continued

By Geographic Segment

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment. The geographic segment is based on the location of the office.

2003*

	Asia Pacific					MESA			Americas, UK & Group Head Office	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Other Asia Pacific \$million	India \$million	UAE \$million	Other Middle East & Other South Asia \$million	Africa \$million		\$million
Interest receivable	1,473	621	318	700	513	215	291	409	1,182	5,722
Interest payable	(531)	(287)	(145)	(300)	(258)	(71)	(94)	(161)	(907)	(2,754)
Net interest income	942	334	173	400	255	144	197	248	275	2,968
Other finance income	(3)	(2)	(1)	(1)	(2)	—	—	—	(4)	(13)
Fees and commissions receivable, net	313	118	47	160	88	66	82	118	164	1,156
Dealing profits and exchange	96	43	12	109	60	24	33	65	83	525
Other operating income	7	(7)	4	13	65	—	3	12	7	104
Net revenue	1,355	486	235	681	466	234	315	443	525	4,740
Costs	(618)	(210)	(136)	(429)	(212)	(91)	(145)	(282)	(386)	(2,509)
Amortisation of goodwill									(134)	(134)
Total operating expenses	(618)	(210)	(136)	(429)	(212)	(91)	(145)	(282)	(520)	(2,643)
Operating profit before provisions	737	276	99	252	254	143	170	161	5	2,097
(Charge) for/release of debts	(305)	(33)	2	(99)	(60)	(2)	4	(9)	(34)	(536)
Amounts written off										
fixed asset investments	—	—	—	—	(4)	—	—	—	(7)	(11)
Operating profit/(loss) before taxation	432	243	101	153	190	141	174	152	(36)	1,550
Loans and advances to customers										
– average	21,428	8,624	4,329	6,675	2,811	1,929	3,328	1,416	7,249	57,789
Net interest margin (%)	2.4	1.8	2.5	2.4	4.0	3.4	3.8	6.7	0.8	2.8
Loans and advances to customers										
– period end	20,845	9,781	5,009	7,124	3,106	2,110	3,484	1,739	6,546	59,744
Loans and advances to banks										
– period end	2,113	1,045	204	2,784	239	605	889	308	5,167	13,354
Total assets employed	39,390	15,747	6,676	16,756	7,590	4,962	5,465	4,557	38,292	139,435
Total risk weighted assets and contingents	19,438	12,423	4,018	8,569	4,560	3,234	4,138	2,115	22,019	80,514

*Comparative restated (see note 54 on page 118).

Total interest receivable and total interest payable include intra-group interest of \$932 million. Total assets employed include intra-group items of \$11,726 million and balances of \$7,507 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include \$2,352 million of balances which are netted in the note on Capital ratios on page 42 in accordance with regulatory guidelines.

Group central expenses and other overhead costs 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. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment.

The geographic segment is based on the location of the office.

42. Segmental Information continued

By Class of Business

	2004				2003*			
	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million	Consumer Banking \$million	Wholesale Banking \$million	Corporate items not allocated \$million	Total \$million
Net interest income	1,952	1,216	–	3,168	1,830	1,138	–	2,968
Other finance income	3	7	–	10	(4)	(9)	–	(13)
Other income	738	1,343	108	2,189	662	1,123	–	1,785
Net revenue	2,693	2,566	108	5,367	2,488	2,252	–	4,740
Costs	(1,388)	(1,404)	(23)	(2,815)	(1,259)	(1,250)	–	(2,509)
Amortisation of goodwill	–	–	(181)	(181)	–	–	(134)	(134)
Total operating expenses	(1,388)	(1,404)	(204)	(2,996)	(1,259)	(1,250)	(134)	(2,643)
Operating profit before provisions	1,305	1,162	(96)	2,371	1,229	1,002	(134)	2,097
Charge for debts	(242)	28	–	(214)	(478)	(58)	–	(536)
Amount written off fixed asset investments	–	(1)	–	(1)	–	(11)	–	(11)
Income from joint venture	1	1	–	2	–	–	–	–
Operating profit/(loss) before taxation	1,064	1,190	(96)	2,158	751	933	(134)	1,550
Total assets employed	37,047	104,641	–	141,688	33,890	86,312	–	120,202
Total risk weighted assets and contingents	28,069	64,055	–	92,124	24,253	53,909	–	78,162

* Prior period has been restated to net down intra group items. Please also refer to note 54 on page 118.

For the segmental information given above, Group central expenses and other overhead costs have been distributed between classes of business in proportion to their direct costs and the benefit of the Group's capital has been distributed between classes of business in proportion to their risk weighted assets. Assets held at the centre have been distributed between classes of businesses in proportion to their total assets employed.

43. Secured Liabilities

	2004 \$million	2003 \$million
Notes in circulation (note 27 and note 32)	2,532	2,249

The notes in circulation were secured by the deposit of funds of \$2,532 million (2003: \$2,249 million) in respect of which Hong Kong SAR Government certificates of indebtedness are held (note 27 and note 32).

44. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2004 \$million	2003 \$million
Contracted	6	4
Not contracted	2	5

45. Assets and Liabilities in Currencies other than US Dollar

	2004 \$million	2003* \$million
Total assets denominated in:		
US dollar	33,872	33,668
Other currencies	107,816	86,534
	141,688	120,202
Total liabilities denominated in:		
US dollar	44,070	41,331
Other currencies	97,618	78,871
	141,688	120,202

*Comparative restated (see note 54 on page 118).

46. 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's guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

	Contract or underlying principal amount \$million	Credit equivalent amount \$million	2004 Risk weighted amount \$million	Contract or underlying principal amount \$million	Credit equivalent amount \$million	2003 Risk weighted amount \$million
Contingent liabilities						
Acceptances and endorsements	976	976	842	716	716	535
Guarantees and irrevocable letters of credit	15,942	9,976	8,146	12,350	8,480	5,773
Other contingent liabilities	3,139	2,414	1,221	4,802	3,364	2,132
	20,057	13,366	10,209	17,868	12,560	8,440
Commitments						
Documentary credits and short term trade-related transactions	2,924	585	494	2,157	431	394
Forward asset purchases and forward deposits placed	54	54	11	26	26	5
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	9,140	4,570	4,133	7,182	3,591	3,259
Less than one year	8,903	–	–	5,203	–	–
Unconditionally cancellable	25,933	–	–	26,589	–	–
	46,954	5,209	4,638	41,157	4,048	3,658

Under the Basel Accord, credit equivalent amounts, obtained by applying credit conversion factors to the contract amount, are risk weighted according to the nature of the counterparty. Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

47. Fair Values

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Positive and negative fair values are the mark-to-market values of the derivative contracts adjusted for any amounts recognised in the Consolidated Profit and Loss Account for non-trading items. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Fair values at the period end are representative of the Group's typical position during the period.

Trading activities are defined as positions held in financial instruments with the intention of benefiting from short term rates or price movements.

The risk section of the Financial Review on pages 31 to 41 explains the Group's risk management of derivative contracts.

	2004			2003		
	Notional principal amounts \$million	Positive fair value \$million	Negative fair value \$million	Notional principal amounts \$million	Positive fair value \$million	Negative fair value \$million
Trading book						
Forward foreign exchange contracts	409,003	6,789	6,500	405,983	8,936	8,535
Foreign exchange derivative contracts						
Currency swaps and options	116,734	2,592	2,532	124,138	1,875	1,931
Exchange traded futures and options	238	–	–	327	–	–
Total	116,972	2,592	2,532	124,465	1,875	1,931
Interest rate derivative contracts						
Swaps	409,418	3,359	3,125	253,359	2,834	2,941
Forward rate agreements and options	57,475	101	127	61,506	89	81
Exchange traded futures and options	96,282	54	54	108,995	24	27
Total	563,175	3,514	3,306	423,860	2,947	3,049
Total trading book derivative financial instruments	1,089,150	12,895	12,338	954,308	13,758	13,515
Effect of netting		(7,563)	(7,563)		(7,507)	(7,507)
		5,332	4,775		6,251	6,008

Non-trading activities are defined as positions held with respect to management of the Group's assets and liabilities and related hedges.

	2004			2003		
	Notional principal amounts \$million	Positive fair value \$million	Negative fair value \$million	Notional principal amounts \$million	Positive fair value \$million	Negative fair value \$million
Non-trading book						
Interest rate derivative contracts						
Swaps	2,304	17	4	28	–	2
Forward rate agreements and options	495	–	–	92	–	–
Exchange traded futures and options	–	–	–	2,634	2	1
Total	2,799	17	4	2,754	2	3
Commodity derivative contracts*	6,030	33	33	866	1	1
Total non-trading book derivative financial instruments	8,829	50	37	3,620	3	4

*The increase in commodity derivative contracts relates to oil options entered into on a back-in-back basis to meet customer requirements.

47. Fair Values continued

	Book value \$million	2004 Market value \$million	Book value \$million	2003 Market value \$million
Listed and publicly traded securities:				
Financial assets	16,627	16,689	17,542	17,548
Preference shares	676	856	649	768
Other financial liabilities	12,013	11,833	10,760	10,965
Financial liabilities	12,689	12,689	11,409	11,733

Financial assets include treasury bills, debt securities and equity shares. Other financial liabilities include debt securities in issue and subordinated loan capital.

48. Credit Exposures in respect of Derivative Contracts

The residual maturity analysis of the notional principal amounts of derivative contracts, excluding exchange traded futures and options, held at 31 December 2004 and 2003 for trading and non-trading purposes is set out below:

	Under one year \$million	One to five years \$million	Over five years \$million	2004 Total \$million	Under one year \$million	One to five years \$million	Over five years \$million	2003 Total \$million
Forward foreign exchange and foreign exchange derivative contracts								
Notional principal amount	479,468	41,409	4,860	525,737	488,667	37,075	4,379	530,121
Net replacement cost	7,640	1,504	237	9,381	9,581	1,091	139	10,811
Interest rate derivative contracts								
Notional principal amount	243,369	189,548	36,775	469,692	166,138	119,008	29,839	314,985
Net replacement cost	519	1,782	1,176	3,477	474	1,520	929	2,923
Commodity derivative contracts								
Notional principal amount	1,094	4,348	588	6,030	445	421	—	866
Net replacement cost	3	23	7	33	—	1	—	1
Counterparty risk								
Financial institutions				11,532				12,901
Non financial institutions				1,359				834
Total replacement cost				12,891				13,735

The risk section of the Financial Review on pages 31 to 41 explains the Group's risk management of derivative contracts.

49. Interest Rate Sensitivity Gap for the Non-Trading Book

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. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

2004

	Non-trading book							2009
	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	Trading book \$million	Total \$million
Assets								
Cash, balances at central banks and cheques in course of collection	545	–	–	2	–	1,722	–	2,269
Treasury bills and other eligible bills	2,876	686	456	138	4	29	236	4,425
Loans and advances to banks	10,843	2,934	1,171	2,540	153	586	695	18,922
Loans and advances to customers	51,154	8,387	3,053	5,737	3,125	–	140	71,596
Debt securities, equity shares and joint venture	8,901	3,901	5,175	6,185	514	473	3,586	28,735
Other assets	59	–	3	76	8	7,866	7,729	15,741
Total assets	74,378	15,908	9,858	14,678	3,804	10,676	12,386	141,688
Liabilities								
Deposits by banks	10,321	2,533	1,137	391	–	779	652	15,813
Customer accounts	66,034	2,757	2,633	1,014	31	11,738	365	84,572
Debt securities in issue	3,428	917	1,041	1,339	31	–	622	7,378
Other liabilities	685	7	7	39	7	8,447	8,610	17,802
Subordinated liabilities	771	–	–	1,305	4,656	–	–	6,732
Minority interests and shareholders' funds	–	–	–	–	–	9,391	–	9,391
Total liabilities	81,239	6,214	4,818	4,088	4,725	30,355	10,249	141,688
Off balance sheet items	495	102	(176)	(352)	(69)	–		
Interest rate sensitivity gap	(6,366)	9,796	4,864	10,238	(990)	(19,679)		
Cumulative gap	(6,366)	3,430	8,294	18,532	17,542	(2,137)		

The risk section of the Financial Review on pages 31 to 41 explains the Group's risk management with respect to asset and liability management.

49. Interest Rate Sensitivity Gap for the Non-Trading Book continued

2003*

	Non-trading book							200
	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	Trading book \$million	Total \$million
Assets								
Cash, balances at central banks and cheques in course of collection	380	–	–	–	–	1,602	–	1,982
Treasury bills and other eligible bills	3,350	1,311	589	283	–	–	156	5,689
Loans and advances to banks	8,312	2,124	1,285	459	199	631	344	13,354
Loans and advances to customers	44,713	5,684	2,065	4,827	2,220	–	235	59,744
Debt securities and equity shares	7,233	3,026	3,522	6,188	795	396	2,340	23,500
Other assets	21	–	170	241	8	7,317	8,176	15,933
Total assets	64,009	12,145	7,631	11,998	3,222	9,946	11,251	120,202
Liabilities								
Deposits by banks	7,258	752	801	450	19	1,535	109	10,924
Customer accounts	58,229	3,072	2,640	758	2	9,045	21	73,767
Debt securities in issue	2,264	562	1,070	1,782	99	–	285	6,062
Other liabilities	184	11	167	247	6	7,201	7,523	15,339
Subordinated liabilities	–	–	–	337	5,677	(47) [†]	–	5,967
Minority interests and shareholders' funds	–	–	–	–	–	8,143	–	8,143
Total liabilities	67,935	4,397	4,678	3,574	5,803	25,877	7,938	120,202
Off balance sheet items	2,184	(464)	(1,523)	(197)	–	–		
Interest rate sensitivity gap	(1,742)	7,284	1,430	8,227	(2,581)	(15,931)		
Cumulative gap	(1,742)	5,542	6,972	15,199	12,618	(3,313)		

[†]Unamortised discounts on the issue of subordinated loan capital.

*Comparative restated (see note 54 on page 118).

50. Non-Structural Currency Exposures

The Group does not maintain material non-trading open currency positions other than the structural currency exposures arising from its investment in overseas operations and their related funding (see note 51).

The risk section of the Financial Review on page 41 explains risk management with respect to the Group's hedging policies.

51. Structural Currency Exposures

The Group's structural currency exposures were as follows:

	2004			2003		
	Net investments in overseas units \$million	Borrowing in the functional currency of the units concerned hedging the net investment in the units \$million	Structural currency exposures \$million	Net investments in overseas units \$million	Borrowing in the functional currency of the units concerned hedging the net investment in the units \$million	Structural currency exposures \$million
Functional currency of the business unit:						
Singapore Dollar	1,080	–	1,080	9	–	9
Indian Rupee	650	–	650	482	–	482
Hong Kong Dollar	2,920	–	2,920	(1)	–	(1)
Malaysian Ringgit	509	–	509	428	–	428
Thai Baht	180	–	180	(1)	–	(1)
UAE Dirham	271	–	271	241	–	241
Korean Won	117	–	117	88	–	88
Indonesian Rupiah	291	–	291	118	–	118
Sterling	952	(952)	–	842	(832)	10
Other Non US Dollar	883	–	883	832	–	832
Total	7,853	(952)	6,901	3,038	(832)	2,206

Structural currency exposures for 2004 and 2003 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 Sterling. 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.

These currency exposures are referred to as structural. Translation gains and losses arising from these exposures are recognised in the Consolidated Statement of Total Recognised Gains and Losses.

The risk section of the Financial Review on page 41 explains the risk management with respect to the Group's hedging policies.

52. Market Risk

	2004				2003*			
Trading book	12 months to 31 December		31 December		12 months to 31 December		31 December	
	Average \$million	High \$million	Low \$million	Actual \$million	Average \$million	High \$million	Low \$million	Actual \$million
Daily value at risk:								
Interest rate risk	3.3	4.4	2.2	3.4	2.7	4.0	1.8	2.9
Foreign exchange risk	2.4	4.5	1.2	3.0	1.6	3.8	0.9	1.3
Total	4.2	6.0	3.1	5.1	3.4	6.7	2.0	3.2

This note should be read in conjunction with the market risk section of the Financial Review on pages 31 to 41 which explains the Group's market risk management.

52. Market Risk continued

The Group measures the risk of losses arising from potential future adverse movements in interest and exchange rates, prices and volatilities using 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 historical

data may not be the best proxy for future price movements, either because the observation period does not include extreme 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 exposure. 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 Group Risk Committee.

53. Hedging Instruments – Unrecognised Gains and Losses on Derivative Hedges

Gains and losses on derivatives used for hedging are recognised and reported in the profit and loss account and balance sheet in line with the underlying items which are being hedged. At 31 December 2004, the unrecognised gains and losses on derivatives used for hedging where the item being hedged had not been recognised were \$17 million and \$4 million respectively.

	Gains \$million	Losses \$million	2004 Net gains/ (losses) \$million	Gains \$million	Losses \$million	2003 Net gains/ (losses) \$million
Unrecognised gains and losses at 1 January	3	4	(1)	20	18	2
Exchange translation differences	–	–	–	1	1	–
Gains and losses arising in previous years recognised in the year	–	(2)	2	(18)	(15)	(3)
Gains and losses arising in the year but not recognised	14	2	12	–	–	–
Unrecognised gains and losses at 31 December	17	4	13	3	4	(1)
Of which:						
Gains and losses expected to be recognised within one year	11	2	9	2	1	1
Gains and losses expected to be recognised in more than one year	6	2	4	1	3	(2)
	17	4	13	3	4	(1)

54. Restatement of Comparative Figures

- a) The Group has fully adopted the accounting requirements of FRS17 – Retirement Benefits. FRS17 replaces Statement of Standard Accounting Practice (SSAP) 24 and Urgent Issue Task Force (UITF) Abstract 6 as the accounting standard dealing with post-retirement benefits. The standard is being introduced in the UK in stages, starting with disclosures in the notes to the accounts. The full requirements of the standard are not mandatory until reporting periods starting on or after 1 January 2005, however early adoption is encouraged. The Group has adopted the standard one year early as there is now more certainty that similar requirements will be incorporated within IFRS, under which the Group will report from 2005.

The new standard requires the Group to include the assets of its defined benefit schemes on its balance sheet together with the related liability net of deferred tax to make benefit payments. The profit and loss account includes a charge in respect of the cost of accruing benefits for current employees and any benefit improvements. The expected return on the schemes' assets is included within other income less a charge in respect of the unwinding of the discount applied to the schemes' liabilities.

Under SSAP24 the profit and loss account included a charge in respect of the cost of accruing benefits for the current employees offset by a credit in respect of the amortisation of the surplus in the Group's defined benefit schemes. A net pension prepayment was included in the Group's balance sheet.

A prior year adjustment has been made reducing shareholders' funds at 31 December 2003 by \$202 million to reflect the revised policy.

The effect of this change on the profit and loss account for the year ended 31 December 2004 has been to introduce other finance income of \$10 million (2003: \$13 million charge), and to decrease administrative expenses by \$16 million (2003: \$30 million decrease). Profit before tax has been increased by \$26 million (2003: \$17 million increase).

The effect on the Group's balance sheet at 31 December 2004 has been to include a provision for defined benefit schemes of \$110 million (2003: \$124 million), to reduce prepayments and accrued income by \$60 million (2003: \$81 million) and reduce shareholders' funds by \$183 million (2003: \$202 million).

- b) The cost recognition policy for the Group has been revised for share schemes to reflect their usage as long term incentive plans, in accordance with the UITF17 (revised) Employee Share Schemes.

In previous years costs have been recognised on an up front basis. From 2004, the Group will spread the cost of share schemes over the performance/vesting period. The effect of this change on the profit and loss account for the year ended 31 December 2004 has been to decrease staff costs by \$14 million before tax (2003: \$9 million increase in staff costs). Shareholders' funds have been increased by \$10 million (2003: \$16 million).

55. Related Party Transactions

In accordance with FRS8, details of transactions with consolidated, subsidiary undertakings are not separately disclosed. The principal subsidiary undertakings of the Group are listed in note 22 of the accounts on pages 92 to 93.

Details of directors' pay and benefits are disclosed in the directors' remuneration report on pages 54 to 67. Details of other transactions with directors and related parties are disclosed in note 8 to the accounts, page 83.

During the year the group entered into a joint venture with PT Astra International Tbk to acquire a controlling interest in PT Bank Permata Tbk ('Permata'). Banking services provided to the joint venture have been on normal, commercial terms. At year end, receivables with Permata totalling \$34.7 million and deposits from Permata totalling \$5.3 million were included within the Group's consolidated balance sheet

56. Forward Looking Statements

This document contains forward-looking statements, including such statements within the meaning of section 27A of the US Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These statements concern or may affect future matters. These may include Standard Chartered'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.

57. UK and Hong Kong Accounting Requirements

The consolidated financial statements of the Group are prepared in accordance with UK GAAP which differs in certain significant respects from Hong Kong GAAP. There would be no material differences between the accounting conventions except as set out below:

Investments in Securities

UK GAAP

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 profit and loss account. Securities other than investment securities are classified as dealing securities and are stated at market value.

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 financial statements under Hong Kong SSAP24 there would have been a net charge to the profit and loss account of \$9 million, (2003: \$5 million), an increase in the book amount of investment in securities of \$46 million (2003: \$30 million) and a credit to reserves of \$32 million (2003: \$21 million).

Tangible Fixed Assets

UK GAAP

Under Financial Reporting Standard 15 – Tangible Fixed Assets (FRS15), revaluation gains should be recognised in the profit and loss account only to the extent (after adjusting for subsequent depreciation) that they reverse revaluation losses on the same asset that were previously recognised in the profit and loss account. All other revaluation gains should be recognised in the statement of total recognised gains and losses.

All revaluation losses that are caused by a clear consumption of economic benefits should be recognised in the profit and loss account. Other revaluation losses should be recognised in the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost; and thereafter, in the profit and loss account unless it can be demonstrated that the recoverable amount (the higher of net realisable value and value in use as defined in Financial Reporting Standard 11 – Impairment of fixed assets and goodwill) of the asset is greater than the revalued amount, in which case the loss should be recognised in the statement of recognised gains and losses to the extent that the recoverable amount of the asset is greater than its revalued amount.

Hong Kong GAAP

Under Hong Kong SSAP17 – Property, Plant and Equipment, when an asset's carrying amount is increased as a result of revaluation, the increase should be credited directly to equity under the heading of revaluation reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any excess thereafter will be charged to the profit and loss account.

At 31 December 2004, the Group's total properties comprised less than one per cent of the Group's total assets. A formal revaluation of certain of the Group's principal properties was performed at 31 August 2002, and at 30 September 2002 for all other properties, by independent valuers.

If the Group had prepared its financial statements under Hong Kong SSAP17 there would have been a net credit to the profit and loss account of \$2 million (2003: \$15 million charge) in respect of valuations below depreciated historical cost.

Dividends

UK GAAP

Dividends declared after the period end are recognised as a liability in the period to which they relate.

Hong Kong GAAP

Under Hong Kong SSAP9 (revised) – Events after the balance sheet date, dividends are only recognised as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

57. UK and Hong Kong Accounting Requirements continued

The retained profit for the year ended 31 December 2004 would rise by \$95 million (2003: \$44 million rise) had the Company adopted Hong Kong SSAP9 (revised), and there would have been an increase in reserves of \$524 million (2003: \$429 million).

Cash Flow Statement

UK GAAP

The Group prepares its cash flow statement in accordance with Financial Reporting Standard 1 – Cash flow statements (FRS1). FRS1 is based on cash, with no concept of cash equivalents. Cash is defined as cash in hand and deposits with qualifying financial institutions repayable on demand, less overdrafts from such institutions repayable on demand.

Hong Kong GAAP

Under Hong Kong SSAP15 – Cash flow statements (Revised 2001) the statement is based on a wider concept of cash and cash equivalents. Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Hong Kong SSAP15 also specifies that bank borrowings are generally considered to be financing activities. However, bank overdrafts repayable on demand, which form an integral part of an enterprise's Cash Management, are included as a component of cash and cash equivalents.

In addition, Hong Kong SSAP15 is different from FRS1 in respect of the presentation/classification of the cash flow statement. Hong Kong SSAP15 classifies cash flows under three headings: (a) cash flows from operating activities; (b) cash flows from investing activities; and (c) cash flows from financing activities. FRS1 specifies a fuller analysis using eight headings: (a) cash flows from operating activities; (b) dividends from joint ventures and associates; (c) returns on investment and servicing of finance; (d) taxation; (e) capital expenditure and financial investment; (f) acquisitions and disposals; (g) equity dividends paid; and (h) financing.

Retirement Benefits

UK GAAP

Background

Financial Reporting Standard 17 – Retirement Benefits (FRS17) has been adopted by the Group for the first time with effect from 1 January 2004.

FRS17 requires defined benefit pension scheme assets to be measured at fair value at each balance sheet date and liabilities to be measured on an actuarial basis using the projected unit method. Differences due to actuarial gains and losses are taken through the Statement of Total Recognised Gains and Losses. FRS17 requires that the asset or liability be shown separately on the balance sheet and net of attributable deferred tax.

Hong Kong GAAP

Hong Kong Accounting Standard 19 Employee Benefits (HKAS19, formerly known as SSAP34) – was originally published by the Hong Kong Institute of Certified Public Accountants in December 2001 and was effective for periods beginning on or after 1 January 2002. Subsequent updates mean that HKAS19 is now essentially the same as IAS19 as issued by the International Accounting Standards Board.

Accordingly the only material difference between HKAS19 and FRS17 is in respect of the treatment of actuarial gains and losses. HKAS19 requires these to be recognised in the profit and loss account rather than in the Statement of Total Recognised Gains and Losses.

On 16 December 2004, the International Accounting Standards Board announced that it will allow the FRS17 treatment of actuarial gains and losses under IAS19. It is therefore assumed that the Hong Kong Institute of Certified Public Accountants will, in due course, adopt a similar approach in order to maintain the consistency of HKAS19 with IAS19.

In the light of this the pension disclosures have not been reworked to reflect what seems likely to be only a short term difference between FRS17 and HKAS19.

Deferred taxation

UK GAAP

Under Financial Reporting Standard 19 – Deferred tax, deferred taxation is provided in full, subject to the recoverability of deferred tax assets, on timing differences at the rates of taxation anticipated to apply when the differences crystallise, arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Hong Kong GAAP

Under Statement of Standard Accounting Practice 12 (revised) – Accounting for deferred tax, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis are recognised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The deferred tax asset balance would be decreased by \$28 million at 31 December 2004 (2003: \$24 million) and the deferred tax liability balance would be increased by \$nil at 31 December 2004 (2003: \$nil). The profit and loss reserves balance would be decreased by \$7 million (2003: \$8 million) and the premises revaluation reserve would be decreased by \$22 million at 31 December 2004 (2003: \$16 million).

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 2004 and 31 December 2003. 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.

	2004			
	Average non interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
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	488	2.6
Gross loans and advances to customers	484	66,529	3,550	5.3
Provisions against loans and advances to banks and customers	(1,875)	(579)	–	–
Debt securities	266	26,961	937	3.5
Equity shares	173			
Premises and equipment	812			
Prepayments, accrued income and other assets	10,083			
Total average assets	13,009	117,300	5,232	4.5

	2003			
	Average non interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash, balances at central banks and cheques in course of collection	1,374	233	3	1.3
Treasury bills and other eligible bills	884	5,346	222	4.2
Gross loans and advances to banks	1,178	16,946	373	2.2
Gross loans and advances to customers	183	60,281	3,341	5.5
Provisions against loans and advances to banks and customers	(2,105)	(650)	–	–
Debt securities	238	24,783	851	3.4
Equity shares	296			
Premises and equipment	850			
Prepayments, accrued income and other assets	12,175			
Total average assets	15,073	106,939	4,790	4.5

Average Balance Sheets and Yield continued

	2004			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Non-interest bearing current and demand accounts	10,876			
Interest bearing current and demand accounts	–	26,149	184	0.7
Savings deposits	121	5,607	68	1.2
Time deposits	243	53,596	1,205	2.2
Other deposits	288	2,758	123	4.5
Debt securities in issue	–	7,037	120	1.7
Accruals, deferred income and other liabilities	9,361	–	–	–
Subordinated liabilities:				
Undated loan capital	–	1,577	36	2.3
Dated loan capital	4,431	4,431	328	7.4
Minority interests	8			
Shareholders' funds	8,257			
Total average liabilities and shareholders' funds	33,585	101,155	2,064	2.0
Net yield				2.4
Net interest margin				2.7

	2003			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Non-interest bearing current and demand accounts	7,938			
Interest bearing current and demand accounts	–	23,622	195	0.8
Savings deposits	104	4,453	68	1.5
Time deposits	254	50,386	1,018	2.0
Other deposits	142	1,847	114	6.2
Debt securities in issue	69	6,537	133	2.0
Accruals, deferred income and other liabilities	13,612	–	–	–
Subordinated liabilities:				
Undated loan capital	–	1,541	28	1.8
Dated loan capital	–	3,454	266	7.7
Minority interests	366			
Shareholders' funds	7,687			
Total average liabilities and shareholders' funds	30,172	91,840	1,822	2.0
Net yield				2.5
Net interest margin				2.8

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.

2004 versus 2003

	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	–	–	–
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

2003 versus 2002

	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	1	(1)	–
Treasury bills and other eligible bills	14	(48)	(34)
Loans and advances to banks	(63)	(296)	(359)
Loans and advances to customers	188	(383)	(195)
Debt securities and equity shares	220	(130)	90
Total interest earning assets	360	(858)	(498)
Interest bearing liabilities			
Dated subordinated loan capital	(30)	54	24
Undated subordinated loan capital	(5)	(28)	(33)
Interest bearing current and demand accounts	44	(43)	1
Savings deposits	(5)	(34)	(39)
Time deposits	2	(387)	(385)
Other deposits	(90)	111	21
Debt securities in issue	49	(41)	8
Total interest bearing liabilities	(35)	(368)	(403)

Five Year Summary

	2004 \$million	2003* \$million	2002 \$million	2001 \$million	2000 \$million
Operating profit before provisions	2,371	2,097	1,982	1,820	1,347
Provisions for bad and doubtful debts, and contingent liabilities and commitments	(214)	(536)	(712)	(731)	(470)
Amounts written off fixed asset investments	(1)	(11)	(8)	–	–
Income from joint venture	2	–	–	–	–
Operating profit including joint venture before taxation	2,158	1,550	1,262	1,089	877
Profit before taxation	2,158	1,550	1,262	1,089	1,409
Profit attributable to shareholders	1,479	1,024	844	699	1,026
Loans and advances to banks	18,922	13,354	16,001	19,578	23,759
Loans and advances to customers	71,596	59,744	57,009	53,005	51,882
Total assets	141,688	120,202	112,953	107,535	102,435
Deposits by banks	15,813	10,924	10,850	11,688	11,103
Customer accounts	84,572	73,767	71,626	67,855	65,037
Shareholders' funds	8,435	7,529	7,270	7,538	6,508
Total capital resources ¹	16,123	14,110	12,974	12,959	11,117
Information per ordinary share					
Basic earnings per share	121.2c	82.0c	57.6c	55.9c	92.2c
Normalised earning per share ²	125.9c	90.1c	74.9c	66.3c	71.1c
Dividends per share	57.5c	52.0c	47.0c	41.92c	38.105c
Net asset value per share	658.3c	588.0c	569.8c	555.3c	551.1c
Ratios					
Post-tax return on ordinary shareholders' funds-normalised basis ²	20.1%	15.7%	13.4%	12.0%	13.4%
Basic cost-income ratio	55.8%	55.8%	56.3%	58.9%	66.8%
Cost-income ratio – normalised basis ²	53.5%	53.6%	53.6%	55.8%	57.3%
Capital ratios:					
Tier 1 capital	8.6%	8.6%	8.3%	9.0%	7.2%
Total capital	15.0%	14.5%	14.2%	16.2%	14.3%

*Comparative restated (see note 54 on page 118).

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.

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