

STANDARD CHARTERED PLC – GROUP CHIEF EXECUTIVE’S REVIEW (continued)

Latin America

We have refocused our Latin American business to concentrate expertise on supporting banks and multi-nationals and we have reduced our risk exposure. This will enable us to redirect capital to our core growth markets in Asia and the Middle East.

We will continue to operate branches in Colombia, Peru and Venezuela with representative offices in Argentina, Brazil and Mexico, focusing primarily on US dollar clearing, trade finance and global markets activities.

Cost and Efficiency

Our cost performance is one of our key achievements in 2002 and the cost income ratio has improved.

In particular, we are beginning to reap the fruits of our investment in world class service centres in Chennai and Kuala Lumpur. The shared service centres are now providing services remotely to most of the Bank’s computer users. We have stepped up our investment in expanding the service centres and now have over 2,200 people employed in them.

As well as giving us economies of scale, the shared service centres allow us to introduce standardised operating models across the Bank.

We have also controlled costs through tighter project management and stricter discipline on general expenditure. The benefits of outsourcing activities like purchasing, premises and other non-essential services, and the impact of reduced telecommunications and infrastructure costs have all contributed to a great performance on costs.

Risk

One of our key agenda items for 2002 was to reinforce our control of risk and enhance our risk performance culture. It has been a challenging year for risk with the increased threat of terrorism, corporate collapses, problems in the telecommunications industry and the impact of Argentina, but we have performed well.

We reinforced the independence of this function with the appointment of a Director of Risk. We established a high-level task force that developed an action plan resulting in one of our lowest levels of bad debt within Wholesale Banking in recent years. We introduced a tougher credit review process in Wholesale Banking and have responded more quickly to customers showing early signs of problems. In Consumer Banking we improved customer segmentation and have strengthened our collection capability.

Capital Efficiency

Having carefully assessed the capital needs of the business to achieve our ambitious growth objectives we considered we had an excess of capital. To address this we launched a tender offer which led to the repurchase in November 2002 of \$659 million of 8.9 per cent preference shares.

STANDARD CHARTERED PLC – GROUP CHIEF EXECUTIVE’S REVIEW (continued)

The premium on repurchase was \$82 million, which was funded from reserves. There is a net negative impact on 2002 basic earnings per share. However, in future years there will be an annual saving of \$59 million in preference share dividends, which will have a positive impact on return on equity and earnings per share from 2003 onwards.

A modest issue of 35 million new ordinary shares, representing 3.1 per cent of our issued share capital, facilitated our listing on the Stock Exchange of Hong Kong. As a result Tier 1 capital stands at 8.6 per cent. Listing in Hong Kong is an integral component of our strategy. It has raised our profile in our biggest market. It has also given us a platform to expand our investor base in Asia.

Brand

Our new brand’s modern and dynamic look appeals to the growing, affluent middle income earners who seek financial products and services which reflect their lifestyles and aspirations. Extensive research shows that customers prefer the new identity.

The rebranding has been accompanied by the internal launch of brand values to all of our employees. Our brand values - Courageous, Responsive, International, Creative and Trustworthy - have been enthusiastically accepted. These shared values support our performance culture. They act as a touchstone for all employees in helping to meet the needs of our customers.

Our People

During the year there was an increased focus on talent management. We made a number of key external hires and about 60 internal moves at senior management level. We launched a new approach to organisational learning, which will allow employees more control over their own training and development as well as the opportunity to learn on-line.

We have strengthened our leadership development with processes that include one-to-one coaching and a short but intensive leadership course for senior managers. Employee engagement is tracked annually through a Gallup survey. It improved significantly in 2002.

The Future

2002 was a year in which we made good progress.

While we will continue to look selectively at acquisitions, at the heart of the improved performance in 2002 has been a drive to get more out of our existing businesses. This will continue.

We are broadening our demographic base. We have added India and the UAE to the list of markets where we make operating profits of more than \$100 million a year. This helps give us the scale and balance that we need.

India and China are the two greatest opportunities of the 21st Century. We are strongly positioned in both.

STANDARD CHARTERED PLC – GROUP CHIEF EXECUTIVE’S REVIEW (continued)

We will continue to grow, although the pace of growth will reflect the underlying economic uncertainties and our focus on sustainable returns.

We have made progress on our cost income ratio. We are a long way down the road to restructuring the cost base and homing in on our target of a cost income ratio of below 50 per cent.

I am confident that we will deliver improved returns to our shareholders. We have large-scale businesses – Cards, Wealth Management, Global Markets and others – and efficiency in our operations.

Mervyn Davies
Group Chief Executive

19 February 2003

STANDARD CHARTERED PLC – BUSINESS REVIEW

CONSUMER BANKING

Consumer Banking has seen strong growth in all its markets outside of Hong Kong. Business volumes, revenue, pre-provision profit and trading profit increased in virtually every market. Our focus on costs has also delivered a significant improvement in the cost income ratio.

The bankruptcy issue in Hong Kong has had a significant impact on our profitability. However, we acted decisively putting in place a number of initiatives to mitigate the impact. These initiatives focused on strengthening the risk management framework, reducing exposure in high risk segments, improving our collections process, and driving through cost efficiencies. Bankruptcies remain a big issue for the banking industry, although the impact on our portfolio has declined in recent months.

Our Qualifying Full Bank status has enhanced our distribution capability in Singapore. We launched a shared ATM network in conjunction with two banks giving customers access to a total of 54 locations island-wide. In addition, we are the only foreign bank admitted into the local NETS direct debit services network, allowing us to offer services to 17,000 retailers. Standard Chartered was named Best Retail Bank in Singapore and Asia Pacific by the Asian Banker Journal.

Cards and Personal Loans

We have had very strong growth in both Credit Cards and Personal Loans. Growth across India, Middle East, South Asia and Singapore has been in excess of 20 per cent.

Cards is one of our most important businesses, generating high returns. It also presents us with a great opportunity for potential growth. We are the largest cards provider in a number of countries, which gives us scale and competitive advantage in the marketplace. In India we launched a number of co-branded cards during 2002.

Mortgages and Auto Finance

We are well positioned in this sector, and have seen margins stabilise. Key markets such as Singapore and Hong Kong delivered strong growth and outpaced the market. Singapore grew at 13 per cent and India has almost doubled its loans outstanding. Taiwan has also shown rapid growth in this sector.

The credit quality of our mortgage portfolio remains resilient. For example, our mortgage delinquency rates in Hong Kong have fallen from 0.77 per cent in 2001 to 0.63 per cent at the end of 2002, which is lower than the market average of 1.06 per cent according to Hong Kong Monetary Authority figures.

We launched MortgageOne an innovative product which allows customers to offset the interest earned on current accounts against the interest on their mortgage. The account was initially launched in Malaysia and subsequently rolled out in Hong Kong, Singapore and India, with great success. As a result we gained strong market shares in our core markets.

STANDARD CHARTERED PLC – BUSINESS REVIEW (continued)

Wealth Management

Significant revenue growth in unit trust, treasury and bancassurance products, has been offset by declining interest margins on deposits.

While it has been a difficult market for equity funds and pensions, our assets under management grew significantly with India, Taiwan and Indonesia accounting for much of the new growth. In Malaysia our range of unit trusts includes eight Islamic banking funds.

WHOLESALE BANKING

Wholesale Banking is moving from a lending oriented and capital intensive business to one focused on a more balanced product range and improving returns.

We have reshaped the business, trading revenue for lower risk, and strengthened our capital market franchise, cross-selling products that provide higher return. We are also focusing on a smaller number of high value customers, and exiting customers and segments that do not generate the right return.

We have seen the benefits of the measures we have taken to control risks. These changes, together with historic high levels of provisions, have resulted in a lower debt charge for Wholesale Banking and good improvement in trading profit.

Global Markets

It was an important year for Global Markets. We have seen new revenue growth from a broader and more sophisticated product set, including credit derivatives and asset backed securitisation. We have also launched innovative retail bonds for corporations such as Wharf Holdings, Mass Transit Railway Corporation and Hong Kong Airport Authority. These bonds utilise both our Consumer Banking and Wholesale Banking capabilities to deliver effective debt financing solutions that meet the needs of local retail investors.

We were able to exploit falling US dollar interest rates, which generated strong revenues, and continue to top the Asia league tables in fixed income and syndications. The Asian Fixed Income business showed further growth and we grew our syndications market share.

A wider product range complements our strength in emerging markets Foreign Exchange. This includes Currency Options and Interest Rate Derivatives, Fixed Income, Structured Asset Solutions, Loan Syndications, Corporate Advisory and Funds Management.

Trade Finance and Lending

The repositioning of our trade and lending portfolio has had a short-term impact on revenues. However, the overall quality of our portfolio has improved as a result. We have grown market share for trade products in key countries, despite exiting some of the lower return segments and were appointed Asian trade finance partner to a number of other financial institutions.

STANDARD CHARTERED PLC – BUSINESS REVIEW (continued)

In November 2002 we launched B2BeX, our leading-edge platform designed to facilitate cross-border trade and supply chain management. In December B2BeX won the ifs/BT Financial Innovation Awards 2002 in the “Most Innovative Business to Business Initiative” category.

Cash Management and Custody

Cash transaction volumes continue to grow and we maintained our position as a leading Asian cash management provider. However, revenues fell reflecting the low interest rate environment.

We have strengthened our franchise in the Middle East and South Asia, invested in cash management capabilities, delivered new products to market, and launched a new internet based platform. This has all contributed to the acquisition of a number of new customers.

Investing in our cash management product capabilities has resulted in deposit growth of 16 per cent. In addition we have won a number of significant regional mandates from some of the world’s leading multi-nationals. In July 2002, we were appointed by the Hong Kong Monetary Authority as the sole settlement institution for Euro clearing in Hong Kong.

TECHNOLOGY AND OPERATIONS

In 2002 we brought together the technology and operations functions under one operating model. Technology and Operations is an integrated part of the Bank, supporting the development and growth of the Consumer Banking, Wholesale Banking and regional businesses. It also supports our drive to improve cost, service quality and flexibility through standardisation, centralisation and re-engineering.

Global Hubs

By the end of the year there were over 2,200 staff in our centralised hubs in Kuala Lumpur and Chennai, servicing a wide range of banking products such as trade, credit cards and payments. We expect the number of staff to increase significantly in 2003 as the size and range of operations processes migrated increases.

In addition to processing the hubs also provide information technology (IT), systems development, human resources and finance services to the Bank.

Telecommunications

Reliable and economic telecommunications are vital to a bank with our international scale of operations and are a key enabler of our centralisation strategy. We have installed an Internet Protocol-based global wide area data network and a separate but complementary satellite network was installed for our African business. Additionally, we also signed a contract for international voice telecommunications, which will lead to significant cost reductions.

Technology – Supporting Business Development

The major focus of our investment in technology is to provide a cost-efficient platform that enables improvement in products and customer service.

STANDARD CHARTERED PLC – BUSINESS REVIEW (continued)

Two major initiatives were launched last year focusing on our core Consumer Banking networks in Hong Kong and Singapore. We have implemented the first stages of the Customer Sales and Service project based on a world-class customer relationship management solution and the installation of an advanced teller platform.

In August we successfully launched a new core branch banking system in United Arab Emirates, called eBBS, which we aim to roll out in the rest of Middle East and South Asia.

STANDARD CHARTERED PLC – FINANCIAL REVIEW

GROUP SUMMARY

The results for the year ended 31 December 2002 reflect a strong performance with profit before tax up 16 per cent from \$1,089 million to \$1,262 million. Revenue momentum has been sustained despite tough market conditions, pressure on margins and a low interest rate environment. Costs have been reduced by \$28 million without cutting investment in growth businesses and in re-engineering the Bank. Provisions for bad debts and contingent liabilities were \$19 million lower, mainly due to tight control on risk in Wholesale Banking where new provisions were lower and recoveries were higher than in 2001.

The results were adversely impacted by increased Consumer Banking bad debts from bankruptcies in Hong Kong, the economic deterioration in Argentina in the first quarter and the difficult economic environment in Zimbabwe, but benefited from a gain on the unwind of a swap relating to the preference shares repurchased in November.

In February 2002 the Urgent Issues Task Force of the Accounting Standards Board (UITF) issued guidance on the application of accounting standards to capital instruments that have characteristics of both liabilities and shareholders' funds. The Group has complied with these requirements and as a result has reclassified its Trust Preferred Securities and Step-up Callable Perpetual Trust Preferred Securities from "minority interests - non-equity" to "liabilities" and moved the cost of this capital from "minority interests - non-equity" to "interest payable". The prior year has been restated as follows:-

	2001	
	Net interest income \$m	Profit before tax \$m
As previously published	2,959	1,148
Transfer from minority interests to interest payable on:		
€500 million issued March 2000	(37)	(37)
£300 million issued May 2001	(22)	(22)
As published 31 December 2002	<u>2,900</u>	<u>1,089</u>

If the changes caused by UITF 33 had not applied, the Group's net taxable profit for 2002 would have been \$1,337 million.

Revenue has grown by three per cent to \$4,539 million and reflects strong momentum in Consumer Banking outside of Hong Kong. Total Group revenue has felt the impact of three significant factors in 2002. Firstly, the deliberate action taken to trade revenue to improve the risk profile of the business. Secondly, the deteriorating conditions and hyper-inflationary environment in Zimbabwe depressed revenue by \$64 million. Thirdly, the Group unwound certain interest rate swaps hedging the \$659 million of preference shares which were repurchased in November with a gain of \$57 million.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Net interest income increased by six per cent driven largely by volume growth, lower funding costs and better spreads in Consumer Banking and strong earnings on asset and liability management in Wholesale Banking. The Group also benefited by \$57 million from the unwind of interest rate swaps relating to the Group's preference shares repurchased in November. The Group's average interest earning assets rose by \$2.9 billion compared to 2001, an increase of three per cent. Overall the average net interest margin was 3.1 per cent compared to 3.0 per cent in 2001.

Net fees and commissions receivable increased by one per cent to \$991 million compared to \$977 million in 2001. The focus on a more sophisticated product set within Global Markets generated higher fees in the Americas and United Kingdom. In Other Asia Pacific, India and MESA growth was largely in unsecured lending in Consumer Banking, offsetting the impact of bankruptcy containment actions in Hong Kong.

Dealing profits have fallen by \$50 million or 11 per cent. Hong Kong, India and MESA performed well, increasing revenue by \$22 million through strong trading. However, in addition to the hyper-inflationary adjustment and translation losses relating to Zimbabwe, lower spreads and reduced volumes in a number of countries led to a fall in revenue.

Total operating expenses were reduced by \$28 million to \$2,557 million compared to \$2,585 million in 2001. The benefits of the centralisation and operational efficiency programmes continue and the integration of Grindlays has led to higher than targeted cost synergies. This improvement is despite a \$41 million charge in Latin America as a result of refocusing the strategy, and has been achieved while continuing to invest for future growth. The cost income ratio for 2002 was 53.6 per cent, compared to 55.8 per cent in 2001 on a normalised basis.

The net provisions for bad and doubtful debts and contingent liabilities were \$19 million lower than 2001 at \$712 million. Wholesale Banking improved its position year on year by \$292 million, despite a \$75 million charge for Argentina. This was achieved through a proactive focus on risk management and a strong performance on recoveries. Hong Kong bankruptcies accounted for much of the rise in Consumer Banking's bad debts with a charge of \$287 million in 2002 compared to \$121 million in 2001.

Post tax return on equity (normalised) was 13.4 per cent, up from 12.0 per cent in 2001. This has been achieved through growing high return businesses, cost efficiency and active capital management.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

CONSUMER BANKING

Consumer Banking remains of prime importance to the Bank. Revenue has increased by nine per cent from \$2,222 million in 2001 to \$2,416 million in 2002, and costs have been reduced by five per cent to \$1,190 million. The total debt charge has increased by \$273 million to \$603 million mainly due to the bankruptcy situation in Hong Kong. This reduced the operating profit by two per cent from \$638 million to \$623 million.

The following table provides an analysis of operating profit before tax by geographic segment for Consumer Banking. All regions excluding Hong Kong reported increased operating profit.

	2002								
	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	Other Asia Pacific \$m						
Revenue	1,013	313	156	285	204	213	137	95	2,416
Costs	(422)	(106)	(79)	(177)	(114)	(104)	(124)	(64)	(1,190)
Charge for debts	(434)	(35)	(22)	(58)	(38)	(16)	(3)	3	(603)
Operating profit	157	172	55	50	52	93	10	34	623

	2001								
	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	Other Asia Pacific \$m						
Revenue	1,040	250	139	210	190	179	131	83	2,222
Costs	(474)	(95)	(77)	(171)	(132)	(108)	(122)	(75)	(1,254)
Charge for debts	(226)	(17)	(11)	(35)	(19)	(15)	(3)	(4)	(330)
Operating profit	340	138	51	4	39	56	6	4	638

Hong Kong profits have fallen overall by 54 per cent from \$340 million to \$157 million. However, profits before bad debts have increased by four per cent. Market conditions continue to be difficult with rising unemployment, reduced margins and the bankruptcy problem affecting the whole industry. This has impacted revenue and bad debts. Revenue has fallen by three per cent largely because the Group took decisive and early action to mitigate bankruptcy risk in its unsecured portfolio. Revenues from cards and personal loans fell by 12 per cent while revenues from Mortgages and Wealth Management grew by eight per cent. Growth in mortgages was from improved margins and volume growth. Wealth Management delivered strong growth in fee-based income, partially offset by declining margins as a result of the low interest rate environment in response to lower revenues. Costs in Hong Kong have been strongly managed and have been reduced by \$52 million.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Singapore has increased operating profit by 25 per cent and significantly increased its market share in secured and unsecured lending. This has been driven by lower funding costs, the successful launch of the innovative MortgageOne housing loan solution which offers debt consolidation, liquidity management and wealth management, and through leveraging Standard Chartered's Qualifying Full Banking licence.

Other Asia Pacific increased profits twelve-fold from \$4 million to \$50 million. This was mainly due to the Group's investments in Taiwan and Thailand. Thailand benefited from higher volume and margin in credit cards and personal loans. Revenue in Taiwan increased substantially due to increased volumes from a successful mortgage campaign together with lower funding costs.

MESA increased operating profit by 66 per cent to \$93 million and India by 33 per cent to \$52 million. This was due to the growth in the business and the success of the Grindlays integration. In India, the mortgage portfolio doubled in size aided by the successful launch of MortgageOne.

Africa delivered operating profit of \$10 million, an increase of \$4 million from 2001. This was despite an extremely difficult environment in Zimbabwe. Improved fees and commissions contributed to this performance.

The Americas and the United Kingdom have increased profit from \$4 million to \$34 million, mainly due to cost efficiencies arising from restructuring in 2001.

An analysis of revenue by product is set out below:

	2002 \$m	2001 \$m
Cards / Personal Loans	1,082	985
Wealth Management / Deposits	815	774
Mortgages and Auto Finance	492	395
Other	27	68
	2,416	2,222

There has been strong revenue growth in credit cards and personal loans of ten per cent, and they continue to make impressive returns. Lending outside of Hong Kong grew 20 per cent. Bankruptcy containment actions taken in Hong Kong offset growth elsewhere.

Wealth Management has performed well with revenues up by five per cent over 2001. This has been driven by growth in unit trust, treasury and bancassurance products which offset the impact of the lower interest rate environment.

Mortgages and Auto Finance revenue increased by 25 per cent. Mortgage outstandings grew by nine per cent aided by the successful implementation of MortgageOne Account in Singapore, Malaysia and India and E-Mortgage in Hong Kong. Margins improved in 2002.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Total costs in Consumer Banking have fallen by \$64 million (five per cent) to \$1,190 million, with \$52 million of the reduction in Hong Kong. These savings are after taking account of accelerated investment in new sales platforms, rebranding and distribution channels. The MortgageOne product has been successfully rolled out and E-Mortgage developed in Hong Kong.

The net debt charge increased from \$330 million to \$603 million. This was largely driven by personal bankruptcies in Hong Kong. The data from the Official Receiver's Office shows that although petition rates appear to have stabilised they remain high and volatile. The charge off period for credit cards has been reduced from 150 days past due to 120 days past due in Hong Kong as a consequence of the market environment. Elsewhere the growth in bad debts reflects higher volumes, changes in the business mix and economic conditions.

Outside Hong Kong, trading profit growth of 56 per cent required incremental risk weighted assets of \$2.4 billion, a 22 per cent increase, indicating that growth in Consumer Banking need not be capital intensive.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

WHOLESALE BANKING

The Wholesale Banking business continues to be repositioned to focus on products which offer higher returns. The Group has deliberately traded revenue to improve the risk profile of the business and this is reflected in the results for 2002. Overall revenues fell by three per cent. However, operating profit has risen by 35 per cent due to the substantial reduction in the charge for debts. The debt charge has improved due to lower provisions and improved recoveries.

The following table provides an analysis of operating profit before tax by geographic segment:

	2002								Wholesale Banking Total \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Revenue	403	172	78	287	190	288	195	510	2,123
Costs	(200)	(103)	(64)	(229)	(76)	(92)	(104)	(343)	(1,211)
Charge for debts, contingent liabilities and commitments	6	(6)	9	(3)	-	3	-	(118)	(109)
Amounts written off fixed asset investments	-	-	-	-	-	-	-	(8)	(8)
Operating profit	209	63	23	55	114	199	91	41	795

	2001								Wholesale Banking Total \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Revenue	402	190	98	319	165	257	224	528	2,183
Costs	(205)	(110)	(54)	(233)	(77)	(99)	(104)	(309)	(1,191)
Charge for debts, contingent liabilities and commitments	(31)	(34)	(119)	(51)	(8)	(24)	(10)	(124)	(401)
Operating profit	166	46	(75)	35	80	134	110	95	591

Most regions have improved their results through focusing more closely on Global Markets, reduced costs and improved debt charges. Malaysia has generated an additional \$98 million, MESA \$65 million and Hong Kong \$43 million. In MESA and India the improved performance was in part due to the integration of the Grindlays acquisition and higher volume growth and improved margins in Global Markets. In Africa, the reduction in revenue of \$29 million was driven by hyper-inflationary adjustments in Zimbabwe.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

The profit in the Americas and the United Kingdom has fallen from \$95 million to \$41 million. This is mainly due to a \$75 million charge taken against Argentina in the first quarter of 2002.

An analysis of revenue by product is set out below:

	2002 \$m	2001 \$m
Trade and Lending	775	849
Global Markets	973	914
Cash Management	315	355
Custody	60	65
	2,123	2,183

Trade and Lending revenues have fallen by nine per cent from \$849 million to \$775 million. The reduction in business is in line with the strategy to trade revenue for risk and to concentrate resources on Global Markets. This, together with weak market demand, has had an impact on results.

Global Markets revenue has increased by six per cent to \$973 million. Asset and liability management is a significant component within Global Markets and the positions taken generated substantial revenues in the low interest rate environment, particularly in the first half of 2002. Revenue growth was also generated as the Group focused on higher return business.

Cash Management balances have grown significantly by 16 per cent but revenues have not improved as margins have declined as a result of the low interest rate environment. The reduction in Custody revenues by eight per cent reflects the decrease in equity activity as this business is driven by volume and equity values. However, partially offsetting this was additional revenue from winning new mandates.

Costs have risen by \$20 million. Costs in 2002 include \$45 million staff redundancy and other costs associated with repositioning the business. Investment to enhance product capability has been funded by other underlying cost efficiencies within the Wholesale Banking business.

The significant improvement in the charge for debts reflects the risk management initiatives over the last two years and strong recoveries.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

RISK

Risk is inherent in the Group's business and the effective management of that risk is seen as a core competence within Standard Chartered. Through its risk management structure the Group seeks to manage efficiently the eight core risks: Credit, Market, Country and Liquidity risk arise directly through the Group's commercial activities whilst Business, Regulatory, Operational and Reputational risk are a normal consequence 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.

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, connected groups of counterparties and portfolios on the banking and trading books.

Loan Portfolio

The following table sets out by maturity the amount of customer loans net of provisions.

	2002				2001			
	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	1,977	4,399	14,012	20,388	2,372	4,136	12,241	18,749
Other	4,798	3,197	1,218	9,213	4,907	2,756	1,003	8,666
Total	6,775	7,596	15,230	29,601	7,279	6,892	13,244	27,415
Wholesale Banking	22,035	4,077	1,764	27,876	20,289	3,309	2,460	26,058
General Provisions				(468)				(468)
Net Loans and Advances to Customers	28,810	11,673	16,994	57,009	27,568	10,201	15,704	53,005

The Group's loans and advances to customers is predominately a short-term portfolio with 51 per cent having a maturity of one year or less. The long-term portfolio, i.e. with a maturity of over five years, primarily relates to the Consumer Banking retail mortgages portfolio.

The following table sets out an analysis of the Group's net loans and advances as at 31 December 2002 and 31 December 2001 by borrowers' business or industry and geographical distribution:

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

2002

	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	Other Asia Pacific \$m					
Loans to Individuals									
Mortgages	13,045	3,813	2,031	779	283	20	35	382	20,388
Other (see note below)	2,573	1,524	575	1,684	882	1,537	231	207	9,213
Consumer Banking	15,618	5,337	2,606	2,463	1,165	1,557	266	589	29,601
Agriculture, forestry and fishing	5	7	59	35	15	14	62	365	562
Construction	58	38	37	18	4	157	25	7	344
Commerce	1,251	777	147	572	19	784	283	1,151	4,984
Electricity, gas and water	269	40	12	178	23	50	35	109	716
Financing, insurance and business services	1,645	586	404	489	209	638	47	1,921	5,939
Loans to Governments	-	41	552	66	-	13	-	273	945
Mining and quarrying	-	19	51	26	23	134	20	536	809
Manufacturing	1,019	399	201	2,020	887	1,242	299	2,256	8,323
Commercial real estate	1,012	665	18	112	-	-	6	6	1,819
Transport, storage and communication	405	112	77	217	113	178	107	1,577	2,786
Other	31	39	37	194	-	116	18	214	649
Wholesale Banking	5,695	2,723	1,595	3,927	1,293	3,326	902	8,415	27,876
General Provisions								(468)	(468)
Total loans and advances to customers	21,313	8,060	4,201	6,390	2,458	4,883	1,168	8,536	57,009
Total loans and advances to banks	2,507	2,027	394	2,703	212	1,792	218	6,148	16,001

2001

	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	Other Asia Pacific \$m					
Loans to Individuals									
Mortgages	12,560	3,005	1,784	698	142	38	16	506	18,749
Other (see note below)	3,368	1,172	519	1,111	721	1,462	155	158	8,666
Consumer Banking	15,928	4,177	2,303	1,809	863	1,500	171	664	27,415
Agriculture, forestry and fishing	8	16	69	64	103	16	80	281	637
Construction	56	57	40	39	22	104	16	68	402
Commerce	936	554	223	605	45	703	245	928	4,239
Electricity, gas and water	318	34	28	188	80	29	40	248	965
Financing, insurance and business services	1,836	558	309	532	124	312	40	1,468	5,179
Loans to Governments	-	-	309	19	5	12	1	576	922
Mining and quarrying	-	2	28	35	15	139	32	726	977
Manufacturing	1,005	510	277	2,261	553	1,037	288	2,410	8,341
Commercial real estate	681	1	26	202	-	-	3	13	926
Transport, storage and communication	313	247	75	88	103	192	38	1,173	2,229
Other	64	672	18	-	10	73	15	389	1,241
Wholesale Banking	5,217	2,651	1,402	4,033	1,060	2,617	798	8,280	26,058
General Provisions								(468)	(468)
Total loans and advances to customers	21,145	6,828	3,705	5,842	1,923	4,117	969	8,476	53,005
Total loans and advances to banks	1,227	2,315	607	3,184	398	1,704	325	9,818	19,578

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Under “Other Loans to Individuals”, \$1,487 million (2001: \$2,112 million) relates to the cards portfolio in Hong Kong and \$3,378 million (2001: \$3,757 million) relates to the total cards portfolio.

Approximately 52 per cent (2001: 52 per cent) of total loans and advances to customers relate to Consumer Banking lending, predominantly personal residential mortgages. The Wholesale Banking portfolio is well diversified across both geography and industry. The Group does not have any significant concentration to industries of special interest such as Telecommunications, Aviation and Tourism. Exposure to each of these industries is less than five per cent of Wholesale Banking loans and advances to customers.

Problem Credits

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

In Wholesale Banking, accounts are placed on Early Alert when they display signs of weakness. Such accounts are subject to a dedicated process involving senior risk officers and representatives from a 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: a charge off is made at 150 days past due.
- 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.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

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

	2002								Total \$m
	Hong Kong \$m	Asia Pacific			India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
Loans and advances – Gross non-performing	118	111	176	68	41	27	15	18	574
Specific provisions for bad and doubtful debts	(45)	(18)	(24)	(16)	(8)	(7)	(8)	(1)	(127)
Interest in suspense	(1)	(3)	(22)	(10)	(7)	(7)	(7)	(1)	(58)
Net non-performing loans and advances	72	90	130	42	26	13	-	16	389
Cover ratio									32%

	2001								Total \$m
	Hong Kong \$m	Asia Pacific			India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
Loans and advances – Gross non-performing	164	115	168	68	39	78	18	21	671
Specific provisions for bad and doubtful debts	(70)	(15)	(20)	(24)	(11)	(52)	(5)	(13)	(210)
Interest in suspense	-	(2)	(20)	(8)	(6)	(15)	(7)	-	(58)
Net non-performing loans and advances	94	98	128	36	22	11	6	8	403
Cover ratio									40%

In 2001, gross non-performing loans and advances for Other Asia Pacific have been restated. \$58 million of gross non-performing loans in Standard Chartered Nakornthon Bank (SCNB) subject to a Loan Management Agreement (LMA) are now reported in Wholesale Banking.

The relatively low Consumer Banking cover ratio reflects the fact that Standard Chartered classifies all exposure which is 90+ days past due as non-performing, whilst provisions on unsecured lending are only raised at the time of charge-off (see details relating to the raising of provisions above).

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

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 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 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 uncollectable 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 Group reports non-performing loans on a net at risk basis two years after first raising a specific provision. Net at risk is the result of netting interest in suspense and specific provision against applicable gross outstandings. Normal account management and collection efforts are not impacted by this process.

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

	2002								Total \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Loans and advances – Gross non-performing	121	101	192	810	22	97	80	608	2,031
Specific provisions for bad and doubtful debts	(28)	(28)	(100)	(69)	(15)	(41)	(36)	(244)	(561)
Interest in suspense	(13)	(14)	(34)	(19)	(5)	(13)	(30)	(19)	(147)
Net non-performing loans and advances	80	59	58	722	2	43	14	345	1,323
	2001								Total \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Loans and advances – Gross non-performing	252	120	275	963	43	284	87	498	2,522
Specific provisions for bad and doubtful debts	(60)	(36)	(126)	(122)	(29)	(121)	(47)	(200)	(741)
Interest in suspense	(18)	(11)	(23)	(14)	(10)	(33)	(29)	(29)	(167)
Net non-performing loans and advances	174	73	126	827	4	130	11	269	1,614

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Included in Other Asia Pacific are net non-performing loans of \$690 million (2001: \$739 million) in Standard Chartered Nakornthon Bank (“SCNB”) which are subject to a Loan Management Agreement (LMA). Refer to note 10 on page 50. In 2001 gross non-performing loans for Other Asia Pacific have been restated to include \$58 million of gross non-performing loans subject to the LMA which were previously reported under Consumer Banking.

Wholesale Banking Cover Ratio

Corporate loans and advances to customers against which provisions have been outstanding for two years or more are written down to their net realisable value. The following table shows the cover ratio after adjusting for the cumulative amounts written-down. The non-performing loans recorded in SCNB are excluded from the cover ratio calculation as they are the subject of a Loan Management Agreement with a Thai Government Agency. Refer to note 10 on page 50.

	2002			
	Total \$m	Adjustment for cumulative amounts written down \$m	Exclude LMA \$m	Adjusted Total \$m
Loans and advances – Gross non-performing	2,031	1,652	(781)	2,902
Specific provisions for bad and doubtful debts	(561)	(1,136)	91	(1,606)
Interest in suspense	(147)	(516)	-	(663)
Net non-performing loans and advances	1,323	-	(690)	633
Cover ratio				78%

	2001			
	Total \$m	Adjustment for cumulative amounts written down \$m	Exclude LMA \$m	Adjusted Total \$m
Loans and advances – Gross non-performing	2,522	1,574	(828)	3,268
Specific provisions for bad and doubtful debts	(741)	(1,108)	89	(1,760)
Interest in suspense	(167)	(466)	-	(633)
Net non-performing loans and advances	1,614	-	(739)	875
Cover ratio				73%

Net non-performing loans have decreased by \$291 million to \$1,323 million at 31 December 2002 on the back of strong recoveries as work-out strategies initiated in earlier years take effect. Net non-performing loans are covered by collateral and on-going work-out strategies. The Wholesale Banking adjusted cover ratio also shows significant improvement year-on-year and now stands at 78 per cent (2001: 73 per cent).

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Group

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

	2002								Total \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Provisions held at 1 January 2002	130	51	146	146	40	173	52	213	951
Exchange translation differences	2	1	-	(3)	-	(1)	(4)	6	1
Amounts written off and written down	(501)	(52)	(45)	(126)	(67)	(135)	(7)	(98)	(1,031)
Recoveries of amounts previously written off	14	5	10	13	13	1	-	9	65
Other	-	-	-	(6)	-	3	-	-	(3)
New provisions	502	59	45	115	104	40	9	138	1,012
Recoveries/provisions no longer required	(74)	(18)	(32)	(54)	(67)	(33)	(6)	(23)	(307)
Net charge against profit	428	41	13	61	37	7	3	115	705
Provisions held at 31 December 2002	73	46	124	85	23	48	44	245	688

	2001								Total \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Provisions held at 1 January 2001	227	90	71	292	53	209	52	152	1,146
Exchange translation differences	(3)	(2)	-	6	(1)	(2)	(5)	(5)	(12)
Amounts written off and written down	(359)	(96)	(64)	(230)	(54)	(106)	(9)	(83)	(1,001)
Recoveries of amounts previously written off	8	7	11	10	8	1	1	5	51
Other	-	-	(2)	(18)	7	32	-	16	35
New provisions	318	71	154	140	68	66	20	157	994
Recoveries/provisions no longer required	(61)	(19)	(24)	(54)	(41)	(27)	(7)	(29)	(262)
Net charge against profit	257	52	130	86	27	39	13	128	732
Provisions held at 31 December 2001	130	51	146	146	40	173	52	213	951

Of the amounts written off and the recoveries of amounts previously written off:

	2002 \$m	2001 \$m
Covered by specific provisions	786	817
Not covered by specific provisions	245	184
Recoveries of loans previously written off	(65)	(51)
	966	950

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

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 following table based on the Bank of England Cross Border Reporting (C1) 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.

	2002			
	Public sector \$m	Banks \$m	Other \$m	Total \$m
USA	1,084	1,729	2,462	5,275
Germany	-	2,363	234	2,597
Hong Kong	16	181	1,842	2,039
Korea	12	1,334	407	1,753
Singapore	1	190	1,361	1,552
France	4	1,202	323	1,529
Italy	488	613	374	1,475
Australia	359	988	59	1,406

	2001			
	Public sector \$m	Banks \$m	Other \$m	Total \$m
USA	1,637	1,330	1,750	4,717
Germany	-	3,546	119	3,665
Hong Kong	8	167	1,685	1,860
Singapore	25	310	1,485	1,820
Korea	5	1,214	203	1,422
France	-	1,281	409	1,690
Italy	396	1,047	239	1,682

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Argentina

Standard Chartered has net exposure (net of cash collateral and export credit agency guarantees) of \$211 million (2001: \$380 million) against which provisions of \$136 million (2001: \$56 million) are held. This provides a cover ratio of 64 per cent (2001: 15 per cent). The following table shows the breakdown of this exposure:

	2002 \$m	2001 \$m
Banks		
Foreign owned banks	79	174
Government owned banks	21	34
Local banks	41	93
Corporates	63	79
Government bonds	7	-
Total exposure after cash collateral and export credit agency cover	211	380
Provisions held	(136)	(56)
Net at risk	75	324
Cover ratio	64%	15%

Other Latin American exposure

In addition to Argentina, the Group has exposure to a number of other Latin American countries. The following table shows cross border assets based on the Bank of England Cross Border Reporting (C1) guidelines (net of specific provisions where appropriate).

	2002			2001		
	Banks \$m	Non banks \$m	Total \$m	Banks \$m	Non banks \$m	Total \$m
Brazil	195	78	273	607	168	775
Chile	120	43	163	171	115	286
Colombia	155	45	200	178	150	328
Peru	18	218	236	48	299	347
Venezuela	6	46	52	21	112	133
Others	8	8	16	35	11	46

Local currency exposure to local residents in these countries totals \$165 million (2001: \$212 million).

Market Risk

The Group recognises Market Risk as the exposure created by the potential changes in market prices and rates. Market Risk arises on financial instruments, which are either valued at current market prices (mark to market) or at cost plus any accrued interest (non-trading basis). The Group is exposed to market risk arising principally from customer driven transactions.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Market Risk is supervised by the Group Risk Committee, which agrees policies and levels of risk appetite in terms of Value at Risk (VaR). A Group Market Risk Committee sits as a specialist body to provide business level management, guidance and policy setting. 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 business within the terms of agreed policy. Group Market Risk agrees the limits and monitors exposures against these limits.

Group Market Risk augments the VaR measurement by regularly stress testing aggregate 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 instrument and currency concentrations where appropriate. Factor sensitivity measures are used in addition to VaR as additional 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 measures the potential impact of market prices and rates using Value at Risk (VaR) models.

The total VaR for trading and non-trading books combined as at 31 December 2002 was \$12.4 million. Of this total, \$11.3 million related to interest rate risk and \$1.1 million to exchange rate risk. The corresponding figures as at 31 December 2001 were \$13.9 million and \$1.5 million respectively.

The average total VaR for trading and non-trading books during the year was \$15.2 million (2001: \$13.4 million) with a maximum exposure of \$21.5 million. The average level of risk was higher in 2002 than the prior year due to higher market volatility post September 11th 2001.

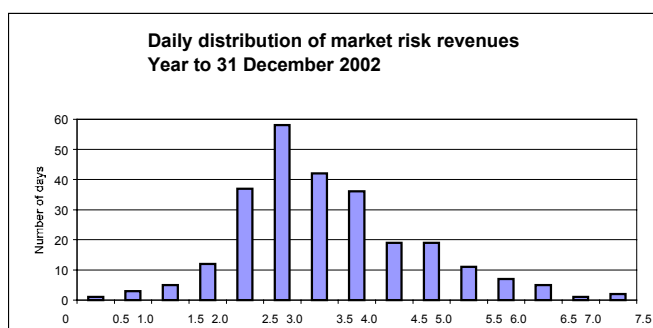
The total VaR for market risks in the Group's trading book was \$2.7 million at 31 December 2002, compared to \$3.5 million a year earlier. Of this total, \$1.6 million related to interest rate risk and \$1.1 million to exchange rate risk. The corresponding figures as at 31 December 2001 were \$2.1 million and \$1.5 million respectively.

VaR for interest rate risk in the non-trading books of the Group totalled \$10.6 million at 31 December 2002, compared to \$11.6 million a year earlier.

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

The average daily revenue earned from market-risk related activities including asset and liability management was \$3.4 million, compared with \$3.3 million during 2001. An analysis of the frequency distribution of daily revenues shows that there were no days with negative revenues during 2002. The most frequent result was daily revenue of between \$2.5 million and \$3.0 million with 58 occurrences. The highest daily revenue was \$7.1 million.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)



Foreign Exchange Exposure

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

Foreign exchange trading exposures are principally derived from customer driven transactions. The average daily foreign exchange trading revenue during 2002 was \$1.2 million.

Interest Rate Exposure

The Group's interest rate exposures comprise trading exposures and structural interest rate exposures. Interest rate risk arises on both trading positions and non-trading books.

Structural interest rate risk arises from the differing re-pricing characteristics of commercial banking assets and liabilities, including non-interest bearing liabilities such as shareholders' funds and some current accounts.

The average daily interest rate revenue from market-risk related activities during 2002 was \$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 plain vanilla 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 total off balance sheet credit risk exposure to derivatives at 31 December 2002 was \$9,783 million (2001: \$7,517 million) based on net replacement cost.

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.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

Only offices with sufficient product expertise and appropriate control systems are authorised to undertake transactions in derivative products.

The credit risk arising from a derivative contract 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 change in the future 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.

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

Liquidity Risk

The Group defines liquidity risk as the risk that funds will not be available to meet liabilities as they fall due. At the local level, in line with policy, the day to day monitoring of future cash flows takes place and suitable levels of easily marketable assets are maintained by the businesses.

A substantial proportion of the Group's assets are funded by customer deposits made up of current and savings accounts and other short-term 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 and if other currencies are used the foreign exchange risk is usually hedged.

Operational and Other Risks

Operational Risk is the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure, personnel, and other risks having an operational impact. Standard Chartered seeks to minimise actual or potential losses from Operational Risk failures through a framework of policies and procedures that identify, assess, control, manage and report risks.

An independent Group Operational Risk function is responsible for establishing and maintaining the overall Operational Risk framework. The Group Operational Risk function provides reports to the Group Risk Committee.

Compliance with Operational Risk policy is the responsibility of all managers. In every country, a Country Operational Risk Group (CORG) has been established. It is the responsibility of the CORG to ensure appropriate risk management frameworks are in place and to monitor and manage operational risk. CORGs are chaired by Country Chief Executives.

Business units are required to monitor their Operational Risks using Group and business level standards and indicators. Significant issues and exceptions must be reported to the CORG. Where appropriate, issues must also be reported to Business Risk Committees and the Group Risk Committee.

Other risks recognised by the Group include Business, Regulatory and Reputational risks.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

CAPITAL

Standard Chartered's policy is to maintain a conservative balance sheet and strong capital base. The Group Asset and Liability Committee targets Tier 1 and Total capital ratios of 7 - 9 per cent and 12 - 14 per cent respectively. The Group believes that being well capitalised is important.

	2002 \$m	2001* \$m
Tier 1 capital:		
Shareholders' funds	7,327	7,538
Minority interests	249	73
Innovative tier 1 securities	997	929
Unconsolidated associated companies	31	22
Less: premises revaluation reserves	(3)	(61)
goodwill capitalised	(2,118)	(2,269)
own shares held (note 1)	(57)	-
Total tier 1 capital	6,426	6,232
Tier 2 capital:		
Premises revaluation reserves	3	61
General provisions	468	468
Undated subordinated loan capital	1,853	1,804
Dated subordinated loan capital	2,605	2,677
Total tier 2 capital	4,929	5,010
Investments in other banks	(558)	-
Other deductions	(4)	(19)
Total capital	10,793	11,223
Risk weighted assets	55,931	53,825
Risk weighted contingents	18,623	15,517
Total risk weighted assets and contingents	74,554	69,342
Capital ratios:		
Tier 1 capital	8.6%	9.0%
Total capital	14.5%	16.2%
	2002 \$m	2001* \$m
Shareholders' funds		
Equity	6,695	6,279
Non Equity	632	1,259
	7,327	7,538
Post tax Return on Equity (normalised)	13.4%	12.0%

Note 1 Relates to shares held in trust to fulfil the Group's obligations under employee share options.

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

The Group identified improving the efficiency of capital management as a strategic priority for 2002. A capital plan to achieve this has been developed. This includes several key elements. In particular, to reduce the amount of Tier 2 capital and to improve the overall capital mix within the broad target ratios.

In October 2002, Standard Chartered PLC listed on the Hong Kong Stock Exchange. The Company issued 35 million ordinary shares of \$0.50 per share. The shares were issued at HKD 84 per share, raising \$17.5 million of share capital and \$328 million of share premium.

In November 2002, the Company repurchased 659,126 Non-cumulative Preference Shares with a nominal value of \$5 and issued at a price of \$1,000 per Preference Share. The Shares were repurchased at \$1,110 per share, together with an amount to compensate for accrued dividend. The deduction from the share premium reserve was restricted to the \$328 million premium raised on the Hong Kong listing.

STANDARD CHARTERED PLC – FINANCIAL REVIEW (continued)

EFFICIENCY PROGRAMME

In August 2000 the Group announced an Efficiency Programme, the purpose of which was to improve productivity and to build an operational platform to support future growth. Excellent progress continues to be made.

Headcount reductions have exceeded the original targets set.

	Achieved in 2002		Original Target over 3 Years	
	Headcount reduction	Headcount addition	Headcount Reduction	Headcount addition
Centralising of processing and support operations	2,350	2,200	2,000	1,000
Operational efficiencies	3,100	-	2,100	-
Integration of acquisitions	2,700	-	2,100	-
	8,150	2,200	6,200	1,000

	Achieved		Target		
	Full year 2002 \$m	Full year 2001 \$m	Original 2001 \$m	Revised 2002 \$m	2003 \$m
Cost Synergies					
Centralising of processing and support operations	60	19	29	64	100
Operational efficiencies	90	60	29	80	90
Integration of acquisitions	115	70	50	100	115
	265	149	108	244	305
Investment spend	(110)	(93)	(167)	(114)	(136)
Net Cost Benefit	155	56	(59)	130	169
Original Net Cost Benefit			(59)	82	159

At the end of 2001 the Group increased its targets for savings from the Efficiency Programme. These higher targets have been delivered in 2002.

STANDARD CHARTERED PLC – FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

	Notes	2002 \$m	2001* \$m
Interest receivable		5,288	6,419
Interest payable		(2,225)	(3,519)
Net interest income		3,063	2,900
Fees and commissions receivable, net		991	977
Dealing profits	3	420	470
Other operating income	4	65	58
		1,476	1,505
Net revenue		4,539	4,405
Administrative expenses:			
Staff		(1,270)	(1,241)
Premises		(269)	(285)
Other		(673)	(735)
Depreciation and amortisation, of which:		(345)	(324)
Amortisation of goodwill		(156)	(140)
Other		(189)	(184)
Total operating expenses		(2,557)	(2,585)
Operating profit before provisions		1,982	1,820
Provisions for bad and doubtful debts	9	(705)	(732)
Provisions for contingent liabilities and commitments		(7)	1
Amounts written off fixed asset investments		(8)	-
Operating profit before taxation	1,2	1,262	1,089
Taxation	5	(387)	(378)
Profit after taxation		875	711
Minority interests (equity)		(31)	(12)
Profit for the financial year attributable to shareholders		844	699
Dividends on non-equity preference shares	6	(108)	(68)
Dividends on ordinary equity shares	7	(545)	(474)
Retained profit for the financial year		191	157

The 2002 and 2001 results are all from continuing operations.

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – FINANCIAL STATEMENTS (continued)

SUMMARISED CONSOLIDATED BALANCE SHEET

As at 31 December 2002

	Notes	2002 \$m	2001* \$m
Assets			
Cash, balances at central banks and cheques in course of collection		1,237	1,174
Treasury bills and other eligible bills		5,050	5,105
Loans and advances to banks	1	16,001	19,578
Loans and advances to customers	1	57,009	53,005
Debt securities and equity shares		20,437	16,080
Intangible fixed assets		2,118	2,269
Tangible fixed assets		928	992
Prepayments, accrued income and other assets		10,230	9,332
Total assets		113,010	107,535
Liabilities			
Deposits by banks	1	10,850	11,688
Customer accounts	1	71,626	67,855
Debt securities in issue	1	4,877	3,706
Accruals, deferred income and other liabilities		12,626	11,327
Subordinated liabilities:			
Undated loan capital		1,853	1,804
Dated loan capital		3,602	3,544
Minority interests (equity)		249	73
Shareholders' funds	12	7,327	7,538
Total liabilities and shareholders' funds		113,010	107,535

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2002

	Notes	2002 \$m	2001 \$m
Profit for the financial year attributable to shareholders		844	699
Premises revaluation		(48)	-
Exchange translation differences		-	(118)
Total recognised gains and losses relating to the financial year		796	581
Prior year adjustment	16	156	-
Total recognised gains and losses since the last annual report		952	581

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 December 2002

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.

STANDARD CHARTERED PLC – FINANCIAL STATEMENTS (continued)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

	2002 \$m	2001* \$m
Net cash inflow from operating activities (see note 14)	4,778	6,113
Returns on investments and servicing of finance		
Interest paid on subordinated loan capital	(330)	(321)
Subordinated loan capital issue expenses	-	(12)
Premium and costs on repayment of subordinated liabilities	(10)	-
Dividends paid to minority shareholders of subsidiary undertakings	(18)	(18)
Dividends paid on preference shares	(123)	(41)
Net cash outflow from returns on investments and servicing of finance	(481)	(392)
Taxation		
UK taxes paid	(25)	(103)
Overseas taxes paid	(303)	(417)
Total taxes paid	(328)	(520)
Capital expenditure and financial investment		
Purchases of tangible fixed assets	(209)	(283)
Acquisitions of treasury bills held for investment purposes	(10,453)	(10,383)
Acquisitions of debt securities held for investment purposes	(38,314)	(26,356)
Acquisitions of equity shares held for investment purposes	(175)	(28)
Disposals of tangible fixed assets	32	58
Disposals and maturities of treasury bills held for investment purposes	10,667	9,138
Disposals and maturities of debt securities held for investment purposes	35,530	20,562
Disposals of equity shares held for investment purposes	18	17
Net cash outflow from capital expenditure and financial investment	(2,904)	(7,275)
Net cash inflow/(outflow) before equity dividends paid and financing	1,065	(2,074)
Equity dividends paid to members of the Company	(462)	(442)
Financing		
Gross proceeds from issue of ordinary share capital	399	22
Ordinary share issue expenses	(31)	-
Issue of preference share capital	-	1,000
Preference share capital – issue expenses	-	(31)
Redemption of preference share capital	(732)	-
Preference share capital – redemption expenses	(9)	-
Issue of subordinated loan capital	11	700
Proceeds from issue of preferred securities	-	421
Repayment of subordinated liabilities	(355)	(204)
Net cash (outflow)/inflow from financing	(717)	1,908
Decrease in cash in the period	(114)	(608)

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – NOTES

1. 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 year ended 31 December 2002 and 31 December 2001.

	2002								Total \$m
	Asia Pacific			Other Asia Pacific \$m	India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m						
Interest receivable	1,718	780	349	789	597	638	316	1,541	6,728
Interest payable	(641)	(421)	(181)	(427)	(369)	(319)	(113)	(1,194)	(3,665)
Net interest income	1,077	359	168	362	228	319	203	347	3,063
Fees and commissions receivable, net	267	80	52	135	85	119	89	164	991
Dealing profits	68	31	15	73	43	58	37	95	420
Other operating income	4	15	(1)	2	38	5	3	(1)	65
Net revenue	1,416	485	234	572	394	501	332	605	4,539
Costs	(622)	(209)	(143)	(406)	(190)	(196)	(228)	(407)	(2,401)
Amortisation of goodwill								(156)	(156)
Total operating expenses	(622)	(209)	(143)	(406)	(190)	(196)	(228)	(563)	(2,557)
Operating profit before provisions	794	276	91	166	204	305	104	42	1,982
Charge for debts, contingent liabilities and commitments	(428)	(41)	(13)	(61)	(38)	(13)	(3)	(115)	(712)
Amounts written off fixed asset investments	-	-	-	-	-	-	-	(8)	(8)
Operating profit before taxation	366	235	78	105	166	292	101	(81)	1,262
Loans and advances to customers - average	21,121	7,534	3,808	5,952	2,186	4,369	1,042	8,451	54,463
Net interest margin (%)	3.0	2.3	2.6	2.3	4.2	3.7	6.9	1.0	3.1
Loans and advances to customers - period end	21,313	8,060	4,201	6,390	2,458	4,883	1,168	8,536	57,009
Loans and advances to banks – period end	2,507	2,027	394	2,703	212	1,792	218	6,148	16,001
Total assets employed	41,143	17,387	6,732	16,295	6,411	10,400	3,880	42,327	144,575
Total risk weighted assets and contingents	19,958	11,570	3,724	7,512	4,367	6,709	1,556	20,430	75,826

- (a) Total interest receivable and total interest payable include intra-group interest of \$1,440 million.
- (b) 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.
- (c) 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.
- (d) Total assets employed include intra-group items of \$25,874 million and balances of \$5,691 million which are netted in the Summarised Consolidated Balance Sheet. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.
- (e) Total risk weighted assets and contingents include \$1,272 million of balances which are netted in calculating capital ratios.

STANDARD CHARTERED PLC – NOTES (continued)

1. Segmental information by geographic segment (continued)

	2001								Total* \$m
	Asia Pacific			Other Asia Pacific \$m	India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m						
Interest receivable	2,377	913	385	892	572	749	339	2,479	8,706
Interest payable*	(1,283)	(608)	(218)	(580)	(373)	(468)	(134)	(2,142)	(5,806)
Net interest income	1,094	305	167	312	199	281	205	337	2,900
Fees and commissions receivable, net	301	95	47	121	78	96	86	153	977
Dealing profits	50	40	20	90	42	55	62	111	470
Other operating income	(3)	-	3	6	36	4	2	10	58
Net revenue	1,442	440	237	529	355	436	355	611	4,405
Costs	(679)	(205)	(131)	(404)	(209)	(207)	(226)	(384)	(2,445)
Amortisation of goodwill								(140)	(140)
Total operating expenses	(679)	(205)	(131)	(404)	(209)	(207)	(226)	(524)	(2,585)
Operating profit before provisions	763	235	106	125	146	229	129	87	1,820
Charge for debts, contingent liabilities and commitments	(257)	(51)	(130)	(86)	(27)	(39)	(13)	(128)	(731)
Operating profit before taxation	506	184	(24)	39	119	190	116	(41)	1,089
Loans and advances to customers - average	21,233	6,311	3,555	5,520	1,909	4,102	1,007	9,198	52,835
Net interest margin (%)	3.2	1.9	2.7	2.3	4.0	4.0	8.2	1.0	3.0
Loans and advances to customers - period end	21,145	6,828	3,705	5,842	1,923	4,117	969	8,476	53,005
Loans and advances to banks – period end	1,227	2,315	607	3,184	398	1,704	325	9,818	19,578
Total assets employed*	39,508	15,086	6,223	14,580	5,994	9,604	3,487	41,335	135,817
Total risk weighted assets and contingents	19,320	8,933	3,630	7,446	3,590	5,802	1,343	19,778	69,842

- (f) Total interest receivable and total interest payable include intra-group interest of \$2,287 million.
- (g) 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.
- (h) 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.
- (i) Total assets employed include intra-group items of \$24,724 million and balances of \$3,558 million which are netted in the Summarised Consolidated Balance Sheet. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.
- (j) Total risk weighted assets and contingents include balances of \$500 million which are netted in calculating Capital ratios.

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – NOTES (continued)

1. Segmental information by geographic segment (continued)

The following table sets out the structure of the Group's deposits by principal geographic region where it operates at 31 December 2002 and 31 December 2001.

	2002								Total Deposits \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Non interest bearing current and demand accounts	1,341	992	828	597	807	1,465	696	428	7,154
Interest bearing current and demand accounts	10,841	1,860	76	1,590	3	500	908	2,939	18,717
Savings deposits	553	455	514	1,117	584	1,151	416	11	4,801
Time deposits	14,615	7,779	2,739	4,812	2,722	3,531	525	11,726	48,449
Other deposits	5	382	444	1,097	113	410	26	878	3,355
Total	27,355	11,468	4,601	9,213	4,229	7,057	2,571	15,982	82,476
Deposits by banks	649	1,356	422	2,183	1,078	1,156	113	3,893	10,850
Customer accounts	26,706	10,112	4,179	7,030	3,151	5,901	2,458	12,089	71,626
	27,355	11,468	4,601	9,213	4,229	7,057	2,571	15,982	82,476
Debt securities in issue	1,813	177	295	358	82	-	-	2,152	4,877
Total	29,168	11,645	4,896	9,571	4,311	7,057	2,571	18,134	87,353

	2001								Total Deposits \$m
	Asia Pacific				India \$m	Middle East & Other S Asia \$m	Africa \$m	Americas UK & Group Head Office \$m	
	Hong Kong \$m	Singapore \$m	Malaysia \$m	Other Asia Pacific \$m					
Non interest bearing current and demand accounts	1,207	901	728	439	672	980	714	669	6,310
Interest bearing current and demand accounts	10,002	1,622	107	1,301	5	767	711	2,228	16,743
Savings deposits	582	437	579	1,042	518	1,040	372	220	4,790
Time deposits	16,687	7,078	2,824	4,565	2,798	3,672	461	9,831	47,916
Other deposits	4	253	303	1,099	57	205	190	1,673	3,784
Total	28,482	10,291	4,541	8,446	4,050	6,664	2,448	14,621	79,543
Deposits by banks	1,001	1,028	472	2,051	1,115	1,298	67	4,656	11,688
Customer accounts	27,481	9,263	4,069	6,395	2,935	5,366	2,381	9,965	67,855
	28,482	10,291	4,541	8,446	4,050	6,664	2,448	14,621	79,543
Debt securities in issue	1,305	81	245	363	82	-	3	1,627	3,706
Total	29,787	10,372	4,786	8,809	4,132	6,664	2,451	16,248	83,249

STANDARD CHARTERED PLC – NOTES (continued)

2. Segmental information by class of business

	2002			2001*		
	Consumer Banking \$m	Wholesale Banking \$m	Total \$m	Consumer Banking \$m	Wholesale Banking \$m	Total \$m
Net interest income	1,867	1,196	3,063	1,702	1,198	2,900
Other income	549	927	1,476	520	985	1,505
Net revenue	2,416	2,123	4,539	2,222	2,183	4,405
Costs	(1,190)	(1,211)	(2,401)	(1,254)	(1,191)	(2,445)
Amortisation of goodwill	-	-	(156)	-	-	(140)
Total operating expenses	(1,190)	(1,211)	(2,557)	(1,254)	(1,191)	(2,585)
Operating profit before provisions	1,226	912	1,982	968	992	1,820
Charge for debts, contingent liabilities and commitments	(603)	(109)	(712)	(330)	(401)	(731)
Amounts written off of fixed assets investments	-	(8)	(8)	-	-	-
Operating profit before taxation	623	795	1,262	638	591	1,089
Total assets employed	40,465	104,110	144,575	44,992	90,825	135,817
Total risk weighted assets and contingents	23,779	50,775	74,554	21,688	47,654	69,342

* Comparative restated (see note 16)

Please refer to note 1 (a) – (d) and (f) – (i)

3. Dealing profits

	2002 \$m	2001 \$m
Income from foreign exchange dealing	319	374
Profits less losses on dealing securities	65	22
Other dealing profits	36	74
	420	470

4. Other operating income

	2002 \$m	2001 \$m
Other operating income includes:		
Profits less losses on disposal of investment securities	18	23
Dividend income	5	3

STANDARD CHARTERED PLC – NOTES (continued)

5. Taxation

	2002 \$m	2001 \$m
United Kingdom corporation tax at 30% (2001: 30%)	257	211
Relief for overseas tax	(180)	(179)
	77	32
Overseas tax	310	346
	387	378
Effective tax rate	30.7%	34.7%

6. Dividends on preference shares

	2002 \$m	2001 \$m
Non-cumulative irredeemable preference shares:		
7½% preference shares of £1 each	11	11
8¼% preference shares of £1 each	12	12
Non-cumulative redeemable preference shares:		
8.9% preference shares of \$5 each	85	45
	108	68

7. Dividends on ordinary shares

	2002		2001	
	Cents per share	\$m	Cents per share	\$m
Interim	14.10	160	12.82	145
Final	32.90	385	29.10	329
	47.00	545	41.92	474

The 2002 final dividend of 32.9 cents per share will be paid in sterling, unless shareholders elect to be paid in US dollars, on 13 May 2003 to shareholders on the register of members at the close of business on 28 February 2003. 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 dividend. Details will be sent to shareholders on or around 17 March 2003.

STANDARD CHARTERED PLC – NOTES (continued)

8. Earnings per ordinary share

	2002			2001		
	Profit \$m	Average number of shares ('000)	Per Share Amount Cents	Profit \$m	Average number of shares ('000)	Per Share Amount Cents
Basic EPS						
Profit attributable to ordinary shareholders	736	1,135,664	-	631	1,128,407	55.9c
Premium and costs paid on redemption of preference shares	(82)	-	-	-	-	-
Basic earnings per ordinary share	654	1,135,664	57.6c	631	1,128,407	55.9c
Effect of dilutive potential ordinary shares:						
Convertible bonds	17	34,488		16	34,488	
Options	-	2,168		-	4,478	
Diluted EPS	671	1,172,320	57.2c	647	1,167,373	55.4c

The Group measures earnings per share on a normalised basis. This differs from earnings defined in Financial Reporting Standard 14. The table below provides a reconciliation.

	2002 \$m	2001 \$m
Basic earnings per ordinary share, as above	654	631
Premium and costs paid on redemption of preference shares	82	-
Amortisation of goodwill	156	140
Profits less losses on disposal of investment securities	(18)	(23)
Amounts written off fixed asset investments	8	-
Impairment of tangible fixed assets	9	-
Gain on close out of interest rate swap to hedge preference share dividends	(57)	-
Tax charge relating to profit on interest rate swap	17	-
Normalised earnings	851	748
Normalised earnings per ordinary share	74.9c	66.3c

9. Provisions for bad and doubtful debts

	2002		2001	
	Specific \$m	General \$m	Specific \$m	General \$m
Provisions held at beginning of period	951	468	1,146	468
Exchange translation differences	1	-	(12)	-
Amounts written off	(1,008)	-	(633)	-
Amounts written down	(23)	-	(368)	-
Recoveries of amounts previously written off	65	-	51	-
Other	(3)	-	35	-
New provisions	1,012	-	994	-
Recoveries/provisions no longer required	(307)	-	(262)	-
Net charge against profit	705	-	732	-
Provisions held at end of period	688	468	951	468

Corporate loans and advances to customers against which provisions have been outstanding for two years or more are written down to their net realisable value.

STANDARD CHARTERED PLC – NOTES (continued)

10. Non-performing loans and advances

	2002			2001		
	SCNB (LMA) \$m	Other \$m	Total \$m	SCNB (LMA) \$m	Other \$m	Total \$m
Loans and advances on which interest is suspended	693	1,912	2,605	742	2,451	3,193
Specific provisions for bad and doubtful debts	(3)	(685)	(688)	(3)	(948)	(951)
Interest in suspense	-	(205)	(205)	-	(225)	(225)
	690	1,022	1,712	739	1,278	2,017

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 THB 39 billion (\$904 million) are 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 THB 23 billion (\$533 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 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 agreement, specific provisions and interest in suspense together cover 47 per cent (2001: 48 per cent) of total non-performing lending to customers. If lending and provisions are adjusted for the cumulative amounts written off of \$1,652 million (2001: \$1,574 million), the effective cover is 71 per cent (2001: 68 per cent).

11. Called up share capital

	2002 \$m	2001 \$m
Equity capital		
Ordinary shares of \$0.50 each	585	566
Non-equity capital		
Non-cumulative irredeemable preference shares:		
7½% preference shares of £1 each	161	145
8¼% preference shares of £1 each	161	145
Non-cumulative redeemable preference shares:		
8.9% preference shares of \$5 each	2	5
	909	861

In November 2002, the Group repurchased 659,126 8.9 per cent preference shares of \$5 each. The shares were repurchased at a price of \$1,110 per share. The total premium paid on the buy back equated to \$82 million. This, however, was partially offset by a gain on unwinding the interest rate swaps hedging the position of \$57 million.

STANDARD CHARTERED PLC – NOTES (continued)

12. Shareholders' funds

	Share capital \$m	Share premium account \$m	Capital reserve \$m	Capital redemption reserve	Premises revaluation reserve \$m	Profit and loss account \$m	Total shareholders' funds \$m
At 1 January 2002 previously published	861	2,761	5	-	45	3,710	7,382
Prior year adjustment (note 16)	-	-	-	-	16	140	156
At 1 January 2002 restated	861	2,761	5	-	61	3,850	7,538
Exchange translation differences	32	-	-	-	(6)	(26)	-
Shares issued, net of expenses	19	329	-	-	-	39	387
Repurchase of preference shares	(3)	(328)	-	3	-	(413)	(741)
Retained profit	-	-	-	-	-	191	191
Premises revaluation	-	-	-	-	(48)	-	(48)
Capitalised on exercise of share options	-	2	-	-	-	(2)	-
Realised on disposal of premises	-	-	-	-	(4)	4	-
At 31 December 2002	909	2,764	5	3	3	3,643	7,327
Equity interests							6,695
Non-equity interests							632
At 31 December 2002							7,327

13. Net interest margin and interest spread

	2002 %	2001* %
Net interest margin	3.1	3.0
Interest spread	2.7	2.6
	\$m	\$m
Average interest earning assets	99,667	96,738
Average interest bearing liabilities	86,484	86,624

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – NOTES (continued)

14. Consolidated cash flow statement

Reconciliation between operating profit before taxation and net cash inflow from operating activities:

	2002 \$m	2001* \$m
Operating profit	1,262	1,089
Items not involving cash flow:		
Amortisation of goodwill	156	140
Depreciation, impairment and amortisation of premises and equipment	189	184
Loss on disposal of tangible fixed assets	3	1
Gain on disposal of investment securities	(18)	(23)
Amortisation of investments	(48)	(11)
Charge for bad and doubtful debts and contingent liabilities	712	731
Amounts written off fixed asset investments	8	-
Debts written off, net of recoveries	(966)	(950)
Decrease in accruals and deferred income	(256)	(66)
(Increase)/decrease in prepayments and accrued income	(16)	236
Adjustments for items shown separately:		
Interest paid on subordinated loan capital	330	321
Premium and costs on repayment of subordinated liabilities	10	-
Net cash inflow from trading activities	1,366	1,652
Net increase in cheques in the course of collection	(19)	(71)
Net (increase)/decrease in treasury bills and other eligible bills	(93)	1
Net decrease in loans and advances to banks and customers	485	1,282
Net increase in deposits from banks, customer accounts and debt securities in issue	2,891	3,805
Net increase in dealing securities	(302)	(606)
Net decrease in mark-to-market adjustment	414	63
Net increase/(decrease) in other accounts	36	(13)
Net cash inflow from operating activities	4,778	6,113
<i>Analysis of changes in cash</i>		
Balance at beginning of period	3,549	4,278
Exchange translation differences	61	(121)
Net cash outflow	(114)	(608)
Balance at end of period	3,496	3,549

* Comparative restated (see note 16)

STANDARD CHARTERED PLC – FINANCIAL STATEMENTS

15. Consolidated profit and loss account (unaudited) First half and second half 2002

	2 nd Half 2002 \$m	1 st Half 2002 \$m
Interest receivable	2,735	2,553
Interest payable	(1,214)	(1,011)
Net interest income	1,521	1,542
Fees and commissions receivable, net	515	476
Dealing profits	191	229
Other operating income	27	38
	733	743
Net revenue	2,254	2,285
Administrative expenses:		
Staff	(636)	(634)
Premises	(131)	(138)
Other	(358)	(315)
Depreciation and amortisation, of which:	(188)	(157)
Amortisation of goodwill	(88)	(68)
Other	(100)	(89)
Total operating expenses	(1,313)	(1,244)
Operating profit before provisions	941	1,041
Provisions for bad and doubtful debts	(299)	(406)
Provisions for contingent liabilities and commitments	(6)	(1)
Amounts written off fixed asset investments	(8)	-
Operating profit before taxation	628	634
Taxation	(186)	(201)
Profit after taxation	442	433
Minority interests (equity)	(14)	(17)
Profit for the financial period attributable to shareholders	428	416
Dividends on non-equity preference shares	(52)	(56)
Dividends on ordinary equity shares	(385)	(160)
Retained profit for the financial period	(9)	200

STANDARD CHARTERED PLC – NOTES (continued)

16. Change in accounting policies

Financial Reporting Standard 19 - Deferred Tax ("FRS 19") is effective for accounting periods ending on or after 23 January 2002, and the Group adopted FRS19 in the current period.

It specifies the provisions that are required for deferred tax, which are on a different basis to its predecessor, Statement of Standard Accounting Practice 15.

The adjustments have no effect on current or prior periods tax charge but affect the Deferred Tax balances and Reserves. The brought forward balances at 1 January 2001 have been restated as follows: the Deferred Tax Asset balance is increased by \$156 million, the Profit and Loss Reserves balance is increased by \$140 million and the Premises Revaluation Reserve is increased by \$16 million.

In February 2002, the Urgent Issues Task Force issued Abstract 33 (UITF 33) - "Obligations in Capital Instruments". This reviewed the classification of instruments that have the characteristics of both liabilities and shareholders' funds and provided further guidance on the accounting treatment of these issues.

In 2001, the £300 million 8.103 per cent Step-up Callable Perpetual Trust Preferred Securities and the Eur500 million 8.16 per cent non-cumulative Trust Preferred Securities were treated as minority interests (non-equity) in the consolidated accounts of Standard Chartered PLC, in accordance with Financial Reporting Standard 4 - Capital Instruments.

As a result of complying with UITF 33 the instruments have been reclassified from minority interests (non-equity) to liabilities. The restatement of principal balances at 31 December 2001 is \$878 million together with accrued interest of \$51 million and fee accruals of \$11 million. The associated minority interest payable reclassified to interest payable is \$59 million for the year ended 31 December 2001.

Comparative figures for the year ended 31 December 2001 are restated to reflect these changes to accounting policy.

17. Remuneration

The Group employed 29,400 staff at 31 December 2002 (2001: 28,400).

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 success of the Group depends upon the performance and commitment of talented employees. 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

STANDARD CHARTERED PLC – NOTES (continued)

- 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.

In terms of applying this policy:

- Base salaries are set at the median of the Group's key international competitors.
- Annual bonus awards are made wholly on the basis of Group and individual performance and also an individual's adherence to the Group's values.
- Standard Chartered Group believes strongly in encouraging employee share ownership at all levels in the organisation. The Group is proud to announce that in 2002 50 per cent of employees globally participated in its all employee sharesave scheme. In addition the Group operates certain discretionary share plans which are designed to provide competitive long-term incentives. Of these plans, the Performance Share Plan and the Executive Share Option Scheme are only exercisable upon the achievement of tough performance criteria.

18. Charge on Group assets

The following table shows assets which are subordinated to the claims of other parties.

	2002	2001
	\$m	\$m
Loans and advances to banks	128	111
Loans and advances to customers	4	4
Debt securities	552	11
Other assets – Hong Kong certificates of deposit	2,015	1,884
	2,699	2,010

19. Contingent liabilities and commitments

The table below shows the total contract amount of contingent liabilities and commitments.

	2002	2001
	\$m	\$m
Contingent liabilities	17,913	15,576
Non-cancellable commitments	14,988	15,471

Contingent liabilities include acceptances and endorsements, guarantees and irrevocable letters of credit. Commitments largely relate to undrawn non-cancellable commitments to extend credit.

The contract amounts reflect the volume of business outstanding and do not represent amounts at risk.

The financial information included herein has been derived from the audited and unaudited information contained in the Group's Report and Accounts for the year ended 31 December 2002. Statutory accounts for 2001 have been delivered to the Registrar of Companies. The auditors have reported on these accounts; their report was unqualified and did not contain a statement under Section 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanation) of the Companies Act 1985.

Financial Calendar

Ex-dividend date	26 February 2003
Record date	28 February 2003
Posting to shareholders of 2002 Report and Accounts	17 March 2003
Annual General Meeting	8 May 2003
Payment date – final dividend on ordinary shares	13 May 2003

Copies of this statement are available from Investor Relations, Standard Chartered PLC, 1 Aldermanbury Square, London, EC2V 7SB or from our website on www.standardchartered.com/investor

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The following information is available on our website www.standardchartered.com/investor

- *A live webcast of the final results analyst presentation (available 9:30am GMT)*
- *A pre-recorded webcast and Q/A session of analyst presentation in London (available 1:00pm GMT)*
- *Interviews with Mervyn Davies, Group Chief Executive and Peter Sands, Group Finance Director (available from 8.00am GMT).*
- *Slides for the Group's presentations (available 11.00am GMT)*

Images of Standard Chartered are available for the media at www.newscast.co.uk

Information regarding the Group's commitment to corporate and social responsibility is available at www.standardchartered.com/ourbeliefs

The 2002 Report and Accounts will be made available on the website of the Stock Exchange of Hong Kong and on our website as soon as is practicable.