### 11. Financial Assets Held at Fair Value through Profit or Loss

Certain loans and advances and debt securities with fixed rates of interest are designated as 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.

| | 2005 | | | 2004 |
|---|---|---|---|---|
| | **Trading $million** | **Designated at fair value through profit or loss $million** | **Total $million** | Trading & total $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** | – |

## 12. 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 and 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 risk section of the Financial Review on pages 16, 23 and 24 explains the Group's risk management of derivative contracts.

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| *Total derivatives* | **Notional principal amounts $million** | **Assets $million** | **Liabilities $million** | Notional principal amounts $million | Assets $million | Liabilities $million |
| Foreign exchange derivative contracts: | | | | | | |
| Forward foreign exchange contracts | **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 |
| Equity and stock index options | **379** | **3** | **3** | – | – | – |
| Credit derivatives | **9,374** | **45** | **52** | – | – | – |
| 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.

## 13. Loans and Advances

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Loans to banks $million** | **Loans to customers $million** | Loans to banks $million | Loans to customers $million |
| Loans and advances | **22,982** | **113,908** | 17,446 | 74,463 |
| Interest in suspense | **–** | **–** | (12) | (562) |
| | **22,982** | **113,908** | 17,434 | 73,901 |
| Individual impairment provision | **(22)** | **(1,364)** | (52) | (1,407) |
| General provisions | **–** | **–** | – | (335) |
| Portfolio impairment provision | **(1)** | **(367)** | – | – |
| | **22,959** | **112,177** | 17,382 | 72,159 |
| Of which: loans and advances held at fair value through profit or loss | **(1,258)** | **(386)** | (695) | (140) |
| | **21,701** | **111,791** | 16,687 | 72,019 |

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 Hong Kong residents of approximately $12.0 billion (2004: $12.2 billion), and Korea residents of approximately $22.5 billion (2004: $ nil billion).

| | 2005 | 2004 | |
|---|---|---|---|
| | **Total $million** | Specific $million | General $million |
| Provisions held at beginning of year | **1,794** | 1,661 | 425 |
| Adoption of IAS 39[1] | **(12)** | – | – |
| | **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 | **(583)** | (340) | (55) |
| Net charge against/(credit to) profit[2] | **332** | 269 | (55) |
| Provisions held at end of year[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. The total impairment charge on loans and advances and other credit risk 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.

## 14. 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 provisions | – | (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). The impairment provision above for 2005 includes $368 million of portfolio provision and for 2004 excludes $335 million of general provision under UK GAAP.

## 15. Investment Securities

| | Held-to-maturity $million | Available-for-sale $million | Loans and receivables $million | 2005 $million | 2004 $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 | | | | | |
| | Held-to-maturity $million | Available-for-sale $million | Loans and receivables $million | Equity securities $million | Treasury bills $million | Total $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 |

**15. 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)** | – | – | – | – |
| Opening | **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) |
| Impairments | **1** | **(1)** | **(33)** | **(33)** | – | – | – | – |
| Changes in fair value | **(107)** | **104** | **(29)** | **(32)** | – | – | – | – |
| Amortisation of discounts and premiums | **(25)** | **(3)** | **11** | **(17)** | 23 | – | 18 | 41 |
| Closing | **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 IFRS, 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: $1,068m) 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).

## 16. Business Combinations

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 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 contributed 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 work force in place which are not recognised separately.

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

| | Fair value $million | Acquiree's carrying amount $million |
|---|---|---|
| Cash and balances at central banks* | 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.

### 16. Business Combinations continued

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 fair value amounts contain some provisional balances which will be finalised in the 2006 accounts. The Group acquired a further 24.97 per cent of Standard Chartered Nakornthon Bank Public Company, Thailand, for $98 million giving rise to goodwill of $64 million and other businesses giving rise to negative goodwill of $6 million which has been recognised through the profit and loss.

### 17. 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 and loss (note 19) | **1,439** | 652 |
| | **20,273** | 15,814 |

### 18. Customer Accounts

| | **2005 $million** | 2004 $million |
|---|---|---|
| Customer accounts | **119,931** | 85,093 |
| Customer accounts included within: | | |
| Financial liabilities at fair value through profit and loss (note 19) | **1,008** | 365 |
| | **120,939** | 85,458 |

### 19. 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 |

## 20. 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 and loss (note 19) | **201** | **1,300** | **1,501** | – | 622 | 622 |
| | **14,380** | **13,034** | **27,414** | 4,079 | 7,548 | 11,627 |

## 21. Other Liabilities

Other liabilities include Hong Kong currency notes in circulation of $2,492 million (31 December 2004: $2,532 million) which are secured by Hong Kong SAR Government certificates of indebtedness of the same amount included in other assets.

## 22. Retirement Benefit Obligations

Retirement benefit obligations comprise:

| | **2005 $million** | 2004 $million |
|---|---|---|
| Total market value of assets | **1,930** | 1,913 |
| Present value of the schemes' liabilities | **(2,395)** | (2,073) |
| Defined benefit schemes obligation | **(465)** | (160) |
| Defined contribution schemes | **(11)** | (9) |
| Net book amount | **(476)** | (169) |

Retirement benefit charge comprises:

| | **2005 $million** | 2004 $million |
|---|---|---|
| Defined benefit schemes | **71** | 45 |
| Defined contribution schemes | **60** | 45 |
| Other | **–** | 2 |
| | **131** | 92 |

### 22. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

| | 2005 $million | 2004 $million |
|---|---|---|
| Current service cost | **72** | 47 |
| Past service cost | **–** | 3 |
| Gain on settlement and curtailments | **(1)** | (5) |
| Expected return on pension scheme assets | **(119)** | (120) |
| Interest on pension scheme liabilities | **114** | 110 |
| Total charge to profit before deduction of tax | **66** | 35 |

| | | |
|---|---|---|
| Actual less expected return on assets | **(111)** | (22) |
| Experience loss/(gain) on liabilities | **–** | (2) |
| Loss on change of assumptions | **261** | 29 |
| Loss recognised in Statement of Recognised Income and Expenses before tax | **150** | 5 |
| Deferred taxation | **(45)** | (1) |
| Loss after tax | **105** | 4 |

### 23. Subordinated Liabilities and Other Borrowed Funds

| | 2005 $million | 2004 $million |
|---|---|---|
| Dated subordinated loan capital | **7,292** | 5,144 |
| Undated subordinated loan capital | **2,714** | 1,588 |
| Other undated borrowings | **343** | 36 |
| Total | **10,349** | 6,768 |

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 7⅜ 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 these 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 notes 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 basis points 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.

**23. Subordinated Liabilities and Other Borrowed Funds** continued

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 on the notes at a fixed rate of 5.375 per cent until 14 July 2020 when variable rate interest of three month £Libor plus 189 bps will be paid.

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 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 $500 million 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 month $Libor plus 30 basis points until 8th June 2011 when floating rate interest rate of three month $Libor plus 80 bps will be paid.

**24. Share Capital and Share Premium**

| | 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 3,525,288 shares were issued for the purpose of employee sharesave scheme during 2005.

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.

## 25. 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 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** |

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 trusts 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 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.

## 26. 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 | **26** | **41** | **14** | **52** | **133** |
| Recognised income and expense | **(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.

In May 2005, the Group purchased a further 24.97 per cent of Standard Chartered Nakornthon Bank Public Company Thailand, further reducing the minority interest.

## 27. 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.

| | **2005 $million** | 2004 $million |
|---|---|---|
| Cash and balances with 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 |
| Total | **35,226** | 22,112 |

## 28. Net Interest Margin and Interest Spread

| | **2005 %** | 2004 % |
|---|---|---|
| Net interest margin | **2.5** | 2.6 |
| Interest spread | **2.2** | 2.3 |

| | **$million** | $million |
|---|---|---|
| Average interest earning assets | **170,622** | 122,406 |
| Average interest bearing liabilities | **151,365** | 106,326 |

### 29. Remuneration

The Group employed 43,899 staff at 31 December 2005 (31 December 2004: 33,300).

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.
- 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.
- 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 tough performance criteria. In addition, the Group operates two all-employee sharesave schemes in which 41 per cent of employees participate.

### 30. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

The credit equivalent and risk weighted amounts have been calculated in accordance with the 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.

## 31. 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 16 and 24 explains the Group's risk management with respect to asset and liability management.

| | 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 |

## 32. 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 16 and 23 explains the Group's risk management with respect to currency management.

| | 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 |

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 |
| Malaysian 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 page 16 and 24 explains the risk management with respect to the Group's hedging policies.

## 33. 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 |

## 34. 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 pages 16 and 23 which explains the Group's market risk management.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group Trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. The highest and lowest VaR are independent and could have occurred on different days.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year and involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

**34. Market Risk** continued

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.

## 35. 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.

## 36. 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.

## 37. Dealings in the Company's listed securities

Neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2005.

## 38. 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.

## 39. Transition to IFRS adopted by the EU

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 adopted 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.

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.

The Group elected to apply the exemption from restatement of comparatives for IAS 32 and IAS 39. 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.

**39. Transition to EU Adopted IFRS** continued

Reconciliation of profit for the year ended 31 December 2004

| | 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 |

*a Consolidations*
UK GAAP permitted the presentation of certain securitisations in a linked net manner and 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. 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.

*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 in place 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.

**39. Transition to EU Adopted IFRS** continued

Reconciliation of equity at 1 January 2004
(date of transition to IFRS)

| | 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 |

Reconciliation of equity at 31 December 2004

| | 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 | iii | – | – | 81 | – | (84) | – | (3) |
| Share options | iv | – | – | – | – | 16 | – | 16 |
| Consolidation | v | – | – | – | – | 27 | 8 | 35 |
| Tax | | – | – | – | – | (4) | – | (4) |
| Other | | – | – | – | – | (12) | – | (12) |
| IFRS | | 3,802 | 16 | 76 | (8) | 5,219 | 964 | 10,069 |

**39 Transition to EU Adopted IFRS** continued

Reconciliation of Balance Sheet at 31 December 2004

| | Notes | UK GAAP $million | Effect of transition to IFRS $million | IFRS $million | Recalssif-cation 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 and 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 and 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 |
| | | | | | | |
| Equity | | | | | | |
| Share capital and share premium | | 3,802 | – | 3,802 | – | 3,802 |
| Reserves and retained earnings | | 4,633 | 670 | 5,303 | – | 5,303 |
| Total 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 |

**39. 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/fixed assets

Capitalised software was classified as fixed assets under UKGAAP. $224 million was reclassified to intangible assets under IFRS requirements.

Under UKGAAP 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 intangible 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. This increased staff costs by $23 million.

*iv Consolidation*
UK GAAP permitted the presentation of certain securitisations in a linked net manner and 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. Operating income and expenses increase by $9 million and $5 million respectively.

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 equities increase by $16 million.

*v Tax*
The tax effect of the above adjustments has been recorded in the taxation line of the income statement.

*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 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.

*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. IFRS. Subsequent clarification of the conventions of presenting balance sheets means the Group has made the follow changes between lines (no measurement changes have 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.
- 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.

**39. Transition to EU Adopted IFRS** continued

Reconciliation of equity at 1 January 2005

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 affects of IAS 32 and 39 on the balance sheet at 1 January 2005.

| | Share capital/ premium and redemption reserve $million | Other equity instruments $million | AFS reserves $million | Cash flow hedge reserve $million | Premises revaluation $million | Retained earnings $million | Minority interest $million | Total equity $million |
|---|---|---|---|---|---|---|---|---|
| IFRS (ex IAS 32/39) | 3,818 | – | – | – | 76 | 5,211 | 964 | 10,069 |
| Debt/Equity | (375) | 994 | – | – | – | 20 | – | 639 |
| Effective yield | – | – | – | – | – | 109 | – | 109 |
| Derivatives/hedging | – | – | – | 61 | – | 58 | (4) | 115 |
| Asset classification/fair values | – | – | 87 | – | – | (27) | – | 60 |
| Other | – | – | – | – | – | (102) | – | (102) |
| Impairment | – | – | – | – | – | 33 | – | 33 |
| Tax | – | – | (14) | (19) | – | (55) | – | (88) |
| IFRS | 3,443 | 994 | 73 | 42 | 76 | 5,247 | 960 | 10,835 |

## 40. 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 that are, not intended to be held until maturity, are accounted for under the 'alternative' treatment. Under the alternative treatment securities that 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.

**Summarised Consolidated Income Statement (unaudited)**

First half and second half 2005

| | 1st half 2005 $million | 2nd half 2005 $million | 2005 $million |
|---|---|---|---|
| Interest income | 3,678 | 5,072 | 8,750 |
| Interest expense | (1,706) | (2,709) | (4,415) |
| Net interest income | 1,972 | 2,363 | 4,335 |
| Fees and commission income | 868 | 972 | 1,840 |
| Fees and commission expense | (141) | (204) | (345) |
| Net trading income | 409 | 360 | 769 |
| Other operating income | 128 | 134 | 262 |
| | 1,264 | 1,262 | 2,526 |
| Operating income | 3,236 | 3,625 | 6,861 |
| Staff costs | (990) | (1,155) | (2,145) |
| Premises costs | (181) | (182) | (363) |
| General administrative expenses | (417) | (603) | (1,020) |
| Depreciation and amortisation | (120) | (163) | (283) |
| Operating expenses | (1,708) | (2,103) | (3,811) |
| Operating profit before impairment losses and taxation | 1,528 | 1,522 | 3,050 |
| Impairment losses on loans and advances and other credit risk provisions | (194) | (125) | (319) |
| Other impairment | (1) | (49) | (50) |
| Profit before taxation | 1,333 | 1,348 | 2,681 |
| Taxation | (367) | (343) | (710) |
| Profit for the year | 966 | 1,005 | 1,971 |

| | | | |
|---|---|---|---|
| Profit attributable to: | | | |
| Minority interest | (5) | 30 | 25 |
| Parent company's shareholders | 971 | 975 | 1,946 |
| Profit for the year | 966 | 1,005 | 1,971 |
| Basic earnings per ordinary share | 74.7c | 73.8c | 148.5c |
| Diluted earnings per ordinary share | 73.2c | 73.7c | 146.9c |

**Financial Calendar**

| | |
|---|---|
| Ex-dividend date | 8 March 2006 |
| Record date | 10 March 2006 |
| Expected posting to shareholders of 2005 Report and Accounts | 27 March 2006 |
| Annual General Meeting | 4 May 2006 |
| Payment date – final dividend on ordinary shares | 12 May 2006 |

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*The following information will be available on our website*

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

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

*Information regarding the Group's commitment to Corporate Responsibility is available at http://www.standardchartered.com/corporateresponsibility*

*The 2005 Annual Report will be made available on the website of the Stock Exchange of Hong Kong and on our website* http://investors.standardchartered.com *as soon as is practicable.*

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