HIGHLIGHTS

STANDARD CHARTERED PLC RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

Reported Results

- Operating income up 26 per cent to $8,620 million (2005: $6,861 million)
- Profit before taxation up 19 per cent to $3,178 million (2005: $2,681 million)
- Profit attributable to ordinary shareholders* up 18 per cent to $2,253 million (2005: $1,917 million)
- Total assets up 24 per cent to $266 billion (2005: $215 billion)

Results excluding acquisitions and Korea**

- Operating income up 18 per cent to $6,951 million (2005: $5,904 million)
- Expenses up 17 per cent to $3,733 million (2005: $3,179 million)
- Profit before taxation up 11 per cent to $2,686 million (2005: $2,417 million)

Performance Metrics***

- Normalised earnings per share up 11 per cent at 170.7 cents (2005: 153.7 cents)
- Normalised return on ordinary shareholders' equity of 17 per cent (2005: 18 per cent)
- Annual dividend per share increased 11 per cent to 71.04 cents from 64.0 cents in 2005
- Normalised cost income ratio of 55.2 per cent (2005: 54.5 per cent)
- Total capital ratio at 14.3 per cent (2005: 13.6 per cent)

Significant achievements

- Record profit before taxation at $3,178 million
- Strong organic progress with double-digit income growth in Wholesale Banking and Consumer Banking
- Acquisitions of Union Bank, Pakistan and Hsinchu International Bank, Taiwan provide new growth engines
- Standard and Poors long term credit rating for Standard Chartered raised to A+

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

"Standard Chartered delivered another year of record income and profits in 2006, driven by strong organic growth and continued good progress in Korea. We made strategic acquisitions in Taiwan and Pakistan. We have achieved great momentum and will continue to benefit from the growth opportunities in Asia, Africa and the Middle East and from our investment in the business. We want all our stakeholders to see us as The Right Partner – Leading by Example."

* Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 8 on page 40).

** Results excluding acquisitions and Korea are shown because 2006 includes the acquisitions of Union Bank Limited ("Union"), Hsinchu International Bank ("HIB") and the incremental stake in PT Permata Bank Tbk ("Permata") together with a full year of Standard Chartered First Bank Korea Limited ("SCFB") compared to only eight and a half months in 2005.

*** Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the "Group") excluding items presented in note 9 on page 41.

Standard Chartered PLC - Stock Code: 2888

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

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

STANDARD CHARTERED PLC - SUMMARY OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 $million	2005 $million
RESULTS		
Operating income	**8,620**	6,861
Impairment losses on loans and advances and other credit risk provisions	**(629)**	(319)
Profit before taxation	**3,178**	2,681
Profit attributable to equity interests	**2,278**	1,946
Profit attributable to ordinary shareholders	**2,253**	1,917
BALANCE SHEET		
Total assets	**266,047**	215,096
Total equity	**17,397**	12,333
Capital base	**21,995**	17,118
INFORMATION PER ORDINARY SHARE	**Cents**	Cents
Earnings per share – normalised basis	**170.7**	153.7
– basic	**169.0**	148.5
Dividend per share	**71.04**	64.0
Net asset value per share	**1,208.9**	897.3
RATIOS	**%**	%
Return on ordinary shareholders' equity – normalised basis	**16.9**	18.0
Cost income ratio – normalised basis	**55.2**	54.5
Capital ratios:		
Tier 1 capital	**8.4**	7.7
Total capital	**14.3**	13.6

STANDARD CHARTERED PLC - CHAIRMAN'S STATEMENT

I am very pleased to report that Standard Chartered delivered another year of record income and profits in 2006, driven by strong organic growth and continued good progress in Korea.

- Profit before taxation is up 19 per cent to $3.18 billion
- Income has increased 26 per cent to $8.62 billion
- Normalised earnings per share growth is 11 per cent

The Board is recommending an annual dividend of 71.04 cents per share.

We have strong momentum in the Group, producing good financial performance while investing for future growth. Our existing businesses performed well. We made strategic acquisitions in Taiwan and Pakistan.

GOVERNANCE

I became Chairman of the Group in November 2006 and Peter Sands was appointed as Group Chief Executive. This is an evolution of the Group's leadership which provides continuity in strategy at a time of rapid growth. It is positive for shareholders and will enable us to continue our record of consistently good performance.

An important part of my role as Chairman is to build on the relationships I have developed around the world over the past 10 years as a Board member of Standard Chartered PLC. Banking is a relationship business and that is especially true of Standard Chartered and the markets we operate in. We value highly the relationships which we have with national leaders, regulators, clients and other stakeholders and we want to be known as the right partner for them.

In recent years we have considerably strengthened our Board to ensure that we have a robust level of governance in place for our business. We will continue to ensure that we have a top-quality Board in place that will challenge as well as support the Group's executive management team.

In August we welcomed Lord Turner of Ecchinswell to the Board. He was Chairman of the Independent Pensions Commission until April 2006 and from 1995 to 1999 was Director General of the Confederation of British Industry.

At the end of the year, Hugh Norton retired from the Board as Senior Independent Director. We are very grateful for the 11 years' service which he has given to Standard Chartered as a Board member.

I would like to thank Bryan Sanderson, who stepped down as Chairman in November after serving for the three and a half years. The Group grew strongly and prospered under his chairmanship.

GLOBAL ECONOMY

Our relationships, deep local knowledge and international banking capability mean we are able to capitalise on opportunities in the world's most dynamic markets.

The economic environment has been good. The world economy is thriving, trade is soaring, commodity markets are healthy and China and India are opening up. New trade corridors are emerging for Asia, both within the region and with other regions, and trade volumes are rising sharply.

Globally, and on the ground in many of our markets, the picture looks good. The dynamics of the world economy are changing, as the global importance of Asia, Africa and the Middle East continues to grow.

These changes will continue to impact the world economy. Three quarters of a billion jobs are likely to be created in Asia alone over the next decade. A young middle class is emerging across Asia. Companies in markets such as India are becoming increasingly international and, as a bank with 150 years' experience in India, we are delighted to be working with our clients as they become major forces in the global economy.

Across the Middle East and parts of Africa there is a greater sense of awareness of the need to diversify economies. The combination of globalisation and deregulation are key themes for the regions in our footprint. The emergence of a new wealthy class in these markets bodes well.

But inevitably there remain political and economic threats. In recent years there have also been increasing concerns about United States growth, the dollar and trade imbalances. These concerns are now joined by questions about ample liquidity, asset price inflation and whether markets are pricing sufficiently for risk.

It is important to be aware of such issues. At some stage there will be a cyclical slowdown and the benign credit environment will come to an end. Banks need to be acutely aware of such risks, and must ensure they are prepared and protected.

We are well-placed to gain from the many changes that are under way around the globe and will continue our focus on creating shareholder value through our existing businesses and emerging opportunities.

SUMMARY

During 2006 Standard Chartered made significant strategic progress. We achieved pleasing organic growth in our businesses and completed the acquisitions of Union Bank Limited in Pakistan and Hsinchu International Bank in Taiwan.

We have achieved great momentum and will continue to benefit from the growth opportunities in Asia, Africa and the Middle East and from our investment in the business. We want all our stakeholders to see us as The Right Partner – Leading by Example.

We have the management depth to execute our strategy and we are attracting talented and diverse employees from around the world. The Group is in great shape and we are optimistic about the future.

Mervyn Davies, CBE
Chairman
27 February 2007

FINAL RESULTS 2006

Standard Chartered has achieved much over the last five years. We have delivered on our promises to customers, to staff and to shareholders. 2006 was a year of continued rapid growth, strong financial performance and strategic progress. We start 2007 in great shape, with good business momentum and a clear strategy.

Since 2001 our income has almost doubled. So has the number of employees, to nearly 60,000. Then we had fewer than seven million customers. Now we have over 14 million. Including Permata, we now have over 1,400 branches compared to less than 550 five years ago. Our normalised earnings per share ("EPS") have grown at a compound annual growth rate ("CAGR") of 21 per cent.

I am proud to have been Group Finance Director during this period of rapid progress and growth.

The fundamentals of our strategy remain the same. Our goal is to be the world's best international bank, leading the way in Asia, Africa and the Middle East. We have made great progress on our strategic journey, but there is much more to do. We see opportunities for growth across our markets. We see room for improvement on every aspect of our performance. The strategy and immediate management priorities are clear. My job is to make them happen.

OUR PRIORITIES FOR 2007

- Our top priority for 2007 is to accelerate organic growth. This is the key to shareholder value creation. We increased investment in 2006 and are doing so again in 2007.

- We must continue to deliver growth from our acquisitions. We do not buy to grow. We grow what we buy. In 2007 the focus will be on our most recent acquisitions in Pakistan and Taiwan.

- We will continuously improve the way we work, enhancing our infrastructure and processes to improve our service to customers and to achieve greater productivity.

- We must build leadership capacity, turning talented managers into true leaders. Attracting and developing the next generation of leaders is a critical challenge for me personally.

- Finally, we will reinforce the brand. Standard Chartered already has a great brand, but we intend to make it much better known and much more powerful.

CHINA

2006 was a year of rapid progress for our business in China. We more than doubled income to almost $300 million, tripled profits, expanded our network to 22 locations in 14 cities and almost doubled our staff numbers.

2007 will be equally exciting. We plan to incorporate our business, which will enable us to offer renminbi services to Chinese consumers. We are accelerating investment to expand our network, enhance product capabilities and reinforce infrastructure. By the end of the year, subject to regulatory approval, we would like to have around 40 locations.

China Bohai Bank, in which we have a 19.99 per cent stake, is growing fast. From a greenfield start just 12 months ago, the bank has seven locations and around $1 billion in assets.

China's importance for Standard Chartered goes well beyond the mainland. In Hong Kong, where we have our biggest business, we reach out across the entire Pearl River Delta, and we also benefit from Hong Kong's increasing role as China's international financial centre. Through our relationships with China's leading companies we are deeply involved in the massive growth of China's trade and investment flows across our footprint, for example in Africa.

INDIA

India is equally important to us. In 2006 we made profits of over $400 million, up 69 per cent on 2005. In 2007 we will continue to invest in both businesses.

In Wholesale Banking we are growing right across India and are also working to partner major Indian corporates as they now look to expand outside the country. In Consumer Banking we continue to grow our distribution reach and product offer. We now have 81 branches and 36 consumer finance outlets.

MIDDLE EAST

The Middle East has great organic growth momentum. Not just in Dubai, but in Abu Dhabi, Qatar and elsewhere in the region.

We are very well placed to seize the opportunities: our business in the UAE grew income by 32 per cent in 2006. We are leveraging the opportunities in Islamic finance, we see great potential in the Dubai International Financial Centre and are building our presence in Abu Dhabi.

China, India and the Middle East are three of our biggest opportunities for organic growth. Yet there are many other markets in which Standard Chartered is growing rapidly and where we see great potential. Two examples would be Nigeria and Vietnam.

We drive organic growth not just by geography but also through innovation in the products and services we offer. Our new Private Bank and our Corporate Finance business are examples.

PRIVATE BANK

In 2007, Consumer Banking will be rolling out our Private Bank proposition across six markets. We have already launched successfully in Korea, with Singapore soon to follow.

As a new business, our Private Bank requires considerable investment in people, systems and infrastructure. It has the potential to deliver sustained, high quality earnings growth.

Our Private Bank will be different in several ways. We are international yet also local. We offer both offshore and onshore banking. We are innovative, but also have history and cherish deep longstanding relationships. Our clients will experience a new and distinctive blend of capabilities.

CORPORATE FINANCE

Within Wholesale Banking, our Global Markets business comprises corporate finance, debt capital markets and foreign exchange and derivatives. Corporate finance includes advisory, private equity, principal finance, project finance and structured finance. Corporate finance has grown rapidly. Over the last three years income has grown by nearly 300 per cent and doubled in 2006 alone.

This success is based on the seamless way in which our client relationship model works with our product teams. As a result, the number of Wholesale Banking clients from which we derive more than $1 million of income increased by 27 per cent in 2006.

Organic growth for the Group accounted for over two thirds of income growth in 2006. Yet acquisitions also play an important supporting role.

ACQUISITIONS: PAKISTAN AND TAIWAN

In Pakistan we have had a great start. The integration of Union Bank is proceeding rapidly: we rebranded 65 Union Bank branches overnight. With a strong management team drawn from both institutions, we have continued to grow the business, and now have 115 branches.

In Taiwan we are at an earlier stage. We took direct control of the Hsinchu International Bank Board in December, de-listed the bank on 18 January 2007 and are preparing to integrate it with our existing business.

Due to the complexity of legal requirements in Taiwan, the amalgamation of the two entities, upon which the realisation of synergies depends, is unlikely to occur until the second half of 2007. Hsinchu's consumer lending portfolio is more or less as we expected. The small business ("SME") portfolio is of mixed quality. We will need to reshape both these portfolios to align with our customer and product profiles.

As a result we anticipate that in 2007 Hsinchu's profit contribution will be offset by the costs of integration, investment initiatives and reshaping the business. We remain confident that Hsinchu will be EPS accretive and will deliver double-digit Return on Investment in 2008. We can make Hsinchu into a powerful engine of income and earnings growth, capitalising on the opportunities in Taiwan and the rapidly growing trade and investment flows across North East Asia.

CONTINUOUS IMPROVEMENT

The Group has already begun to become much more efficient and effective. Now we intend to accelerate progress through a continuous effort to make the way we work simpler, better and faster.

In 2003 we launched an initiative called Outserve to improve our service to customers. We made great progress with this programme, improving our understanding of customer needs, reducing turnaround times and introducing systematic tracking of customer service metrics across the Group.

To drive further improvement in our quality of service, we recognise we need to address the fundamental infrastructure and processes of the Group. We have therefore launched Outserve Plus, an umbrella for initiatives to enhance our operational effectiveness. Our aim is to simultaneously enhance our quality of service, make life easier for staff and customers and improve productivity. By doing this, we will create the capacity for accelerated growth.

A good example of the progress we have made is in Technology Production and Operations. This is the core engine of the Group. Through hubbing, re-engineering and selective outsourcing, we have managed to improve efficiency, whilst substantially upgrading service delivery. Technology Production and Operations costs have grown by nine per cent CAGR over the last three years, against income growth of 22 per cent CAGR over the same period.

BUILDING LEADERSHIP

A key priority for 2007 and one on which I place great personal focus is building leadership. To fulfil our ambitions, we must accelerate the development of talented people across the Group, turning good managers into true leaders, people with the right values and capabilities to drive the business forward.

We already have a highly talented and diverse team of people, and a culture that combines performance edge with a cooperative style and a strong set of shared values. The Group is an environment that stimulates, develops and provides new opportunities. But we are not complacent. We want to develop our existing talent further and faster and attract more potential leaders.

To make this happen we are expanding and improving our graduate and MBA recruitment and development, increasing external hiring and refreshing our approach to training programmes. We also welcome the management talent that has come into Standard Chartered with our recent acquisitions.

REINFORCE THE BRAND

Standard Chartered is a great brand, one that is well-known across our franchise. We have begun to leverage the brand more effectively over the last few years but believe that there is much more we can do. Our goal is that everyone in our markets understands our brand promise to be "The Right Partner – Leading by Example" and recognises our trustmark.

We will achieve this partly through external marketing but, equally importantly, through the way we use the brand internally. We need the brand to be embedded in everything we do and to inform every interaction with customers.

Our brand is also about the way we act within the communities in which we work. For example we are very proud of our achievements with "Seeing is Believing", our campaign to address preventable blindness. Here we have certainly been leading by example and had a huge impact.

In the same way we are now putting a lot of focus on the environment and sustainable development, working out what role we should play on issues like climate change.

These are our priorities for 2007 – accelerating organic growth, delivering on acquisitions, continuously improving the way we work, developing leadership and talent and reinforcing our brand.

OUTLOOK

We start 2007 in great shape with good momentum. While there are many potential risks and uncertainties in the world, our businesses are performing strongly and we are clear about our strategy and priorities.

For the Group as a whole, including Korea and our acquisitions, we anticipate:

- Continued good income momentum with both businesses delivering good double-digit income growth for the full year.
- Accelerated investment and improved productivity. We are accelerating investment, in new products, new capabilities and in extending distribution. Yet we are also accelerating our drive for improved productivity, with a range of initiatives to reengineer process, increase hubbing and enhance infrastructure. In the first half of 2007, expenses growth will exceed income growth largely due to accelerating investment in Consumer Banking, particularly in China and in Private Banking. However, taking the year as a whole we expect expenses to grow broadly in line with income.
- Continued focus on risk management. In Wholesale Banking, we are not as yet seeing any deterioration in our portfolio, but do anticipate a reduction in the potential for recoveries as the stock of impaired assets falls. In Consumer Banking, we expect the impairment charge to reflect the improving environment in Taiwan balanced by the inclusion of our most recent acquisitions and the changing mix and maturity of the portfolio, such as the growth of the unsecured and SME portfolios.

SUMMARY

2006 has been another very good year for Standard Chartered. I would like to thank our customers and shareholders for their support; and the Group's staff for their professionalism, enthusiasm and commitment. We look forward to another good year.

Peter Sands
Group Chief Executive
27 February 2007

Group Summary

The Group has delivered another strong performance in the year ended 31 December 2006. Profit before taxation of $3,178 million was up 19 per cent compared to 2005, with income up 26 per cent and a normalised cost income ratio of 55.2 per cent compared to 54.5 per cent in 2005. Normalised earnings per share has increased by 11 per cent to 170.7 cents. (Refer to note 9 on page 41 for the details of basic and diluted earnings per share).

Operating Income and Profit

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

See Group Structure on page 11 for analysis of results with Acquisitions, Korea and Underlying business shown separately.

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

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

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

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

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

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

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

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

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

Group Structure

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

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

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

On 5 September 2006 the Group acquired a further 12.96 per cent in Permata, a provider of Wholesale and Retail Banking products in Indonesia. The Group owned 44.51 per cent of Permata at 31 December 2006. The results of Union, HIB and the incremental stake in Permata are shown together as "Acquisitions" and referred to in the discussions of results as "other acquisitions". The Group's stake in Permata is accounted for as a joint venture and therefore proportionately consolidated.

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

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

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

* Reported on a segmental basis

Consumer Banking

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

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

Consumer Banking continued

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

* Restated. See note 2 on page 35.

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

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

* Restated. See note 2 on page 35.

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

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

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

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

Hong Kong delivered income growth of $43 million, or four per cent over 2005. Wealth Management income increased 18 per cent with innovative product launches, such as Marathon Savings and My Dream account, driving growth. The SME segment grew income by 41 per cent as new product launches and a 36 per cent increase in the sales force helped grow the business. Other products, such as the new HIBOR based mortgage offering, helped bolster income. Expense growth of $13 million, or three per cent, was in line with income growth and reflected investment in the sales and distribution capability, as well as enhancements to ATMs and call centres. Impairment increased by $19 million, or 56 per cent, to $53 million. The increase was due to lower recoveries and increased impairment in line with business volume growth. Operating profit was up two per cent to $538 million. Customer liabilities grew over 13 per cent, whilst assets reduced four per cent as mortgage balances reduced in a strongly competitive market.

Singapore grew income by $43 million, or 13 per cent, to $367 million, a much improved performance compared to 2005. Wealth Management grew strongly with new products such as Xtrasaver and Family Link supporting the increase in customer liabilities by 30 per cent. Unit trust sales increased over 40 per cent driving up fee income. Within SME new product launches, such as SME Express, helped deliver strong growth in income.

Consumer Banking continued

Mortgage income fell 13 per cent, as improved margins were more than offset by a competitive environment and repricing actions by competitors, which increased attrition and reduced customer assets by 11 per cent. Expenses grew $16 million, or 13 per cent, to $142 million reflecting significant investment in new products and the forthcoming Private Bank launch. Impairment was up $6 million, or 20 per cent, to $36 million, reflecting lower releases albeit the credit environment remained benign. The gains in income drove operating profit up $21 million, or 13 per cent, to $189 million.

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

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

Other Asia Pacific grew income by $118 million, or 19 per cent, to $729 million. This growth was constrained by Taiwan where contraction in the unsecured lending business reduced income by 27 per cent. Growth was particularly strong in China, where income more than doubled as mortgage balances increased 66 per cent and the SME segment doubled revenue on the back of strong cash sales. Expenses grew $103 million, or 30 per cent, to $445 million. Around half of the increase in expenses came in China as investment in 12 new branches and 20 ATMs drove up costs. As a result of the reduced income in Taiwan, operating profit before impairment only increased by $15 million, or six per cent, to $284 million. Impairment increased by $224 million, or 135 per cent, to $390 million mainly due to the unsecured impairment charge in Taiwan. The operating profit reported in 2005 of $103 million deteriorated to an operating loss of $106 million in 2006. Acquisitions contributed an operating profit of $20 million.

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

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

Africa income was broadly flat year on year at $257 million although excluding Zimbabwe, income grew nine per cent. Income increased across a broad range of geographies particularly in Nigeria 62 per cent, Zambia 59 per cent and Uganda 11 per cent, and there was double-digit asset growth in both unsecured lending and the SME segment with a sustained sales drive and new products such as Express Trade. Wealth Management introduced further new products, such as the Safari Account and the Junior Savings account, which helped to grow customer liabilities 14 per cent.

Consumer Banking continued

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

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

Consumer Banking product performance

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

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

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

Wholesale Banking

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

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

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

* Restated. See note 2 on page 35.

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

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

* Restated. See note 2 on page 35.

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

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

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

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

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

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

Hong Kong income grew $88 million, or 17 per cent, to $596 million. Income growth was strong in cash management products which benefited from increased balances and improved margins in a rising interest rate environment. Global Markets income grew strongly with increased customer deal volumes, particularly in derivatives and foreign exchange reflecting increased product capabilities in these areas. Expenses increased $58 million, or 25 per cent, to $292 million. The business invested in sales and product capabilities to support the fast growing Global Markets business and specialised client services. Impairment decreased from a charge of $83 million in 2005 to a net recovery of $46 million in 2006 as a result of significant recoveries and effective credit control with no significant new provisions. Operating profit increased $160 million, or 84 per cent, to $350 million.

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

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

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

Wholesale Banking continued

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

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

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

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

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

Product Performance

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

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

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

Acquisitions Operating Income and Profit

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

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

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

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

MESA segment – Total

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

Other Asia Pacific segment – Total

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

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

	Consumer Banking $million	Wholesale Banking $million	Total As reported $million
Operating Income	**123**	**24**	**147**
Expenses	**(82)**	**(9)**	**(91)**
Loan impairment	**(17)**	**(1)**	**(18)**
Profit before taxation	**24**	**14**	**38**

Risk Management Review

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

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

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

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

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

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

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

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

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

Risk Governance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stress testing framework
The framework has been designed to satisfy the following requirements:

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

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

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

Risk Appetite

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

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

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

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

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

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

Credit Risk

Credit Risk Management

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

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

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

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

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

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

Wholesale Banking

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

Consumer Banking

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

Loan Portfolio

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

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

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

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

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

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

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

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

Loan portfolio continued

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

Maturity Analysis

Approximately 48 per cent of the Group's loans and advances are short term having a contractual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term, with 78 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 63 per cent of the portfolio is in the mortgage book, traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

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

Problem Credit Management and Provisioning
Consumer Banking

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

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

A portfolio impairment provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to past experience using flow rate methodology, as well as taking account of judgemental factors such as the economic and business environment in core markets, and the trends in a range of portfolio indicators.

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

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

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

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

Wholesale Banking

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

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

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

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

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. At 87 per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by individual impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

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

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

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

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

Wholesale Banking continued

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

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

Movement in Group Individual Impairment Provision

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

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

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

Country Risk

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

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

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

Cross border assets comprise loans and advances, interest bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, certificates of deposit and other negotiable paper and investment securities where the counterparty is resident in a country other than that where the assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest Rate Exposure
The Group’s interest rate exposures arise from trading and non-trading activities.

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

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

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

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

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

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

The Group applies a future exposure methodology to manage counterparty credit exposure associated with derivative transactions. Please refer to note 33 on page 58 for further information on Market Risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reputational risk is not a primary risk, but will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, legal and regulatory and operational risk.

Reputational Risk continued
It may also arise from the failure to comply with Social, Environmental and Ethical standards. All staff are responsible for day to day identification and management of reputational risk.

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

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

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

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

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

STANDARD CHARTERED PLC - CAPITAL

Capital

The GALCO targets Tier 1 and Total capital ratios of 7-9 per cent and 12-14 per cent respectively.

	2006 $million	2005 $million
Tier 1 capital:		
Called up ordinary share capital and preference shares	**7,771**	5,982
Eligible reserves	**8,937**	6,151
Minority interests	**211**	115
Innovative Tier 1 securities	**2,262**	1,542
Less: Restriction on innovative Tier 1 securities	**(337)**	(83)
Goodwill and other intangible assets	**(6,146)**	(4,321)
Unconsolidated associated companies	**229**	186
Other regulatory adjustments	**(94)**	153
Total Tier 1 capital	**12,833**	9,725
Tier 2 capital:		
Eligible revaluation reserves	**509**	195
Portfolio impairment provision	**610**	368
Qualifying subordinated liabilities:		
Perpetual subordinated debt	**3,368**	3,128
Other eligible subordinated debt	**5,387**	4,169
Less: Amortisation of qualifying subordinated liabilities	**(518)**	(229)
Restricted innovative Tier 1 securities	**337**	83
Total Tier 2 capital	**9,693**	7,714
Investments in other banks	**(211)**	(148)
Other deductions	**(320)**	(173)
Total capital base	**21,995**	17,118
Banking book:		
Risk weighted assets	**120,028**	99,378
Risk weighted contingents	**21,106**	16,274
	141,134	115,652
Trading book:		
Market risks	**5,834**	6,701
Counterparty/settlement risks	**6,475**	3,571
Total risk weighted assets and contingents	**153,443**	125,924
Capital ratios		
Tier 1 capital	**8.4%**	7.7%
Total capital	**14.3%**	13.6%

Consolidated Income Statement
For the year ended 31 December 2006

		2006			2005		
	Notes	Excluding acquisitions $million	Acquisitions $million	Total $million	Excluding acquisitions $million	Acquisitions $million	Total $million
Interest income		**12,810**	**177**	**12,987**	6,938	1,812	8,750
Interest expense		**(7,576)**	**(83)**	**(7,659)**	(3,384)	(1,031)	(4,415)
Net interest income		**5,234**	**94**	**5,328**	3,554	781	4,335
Fees and commission income		**2,232**	**43**	**2,275**	1,724	116	1,840
Fees and commission expense		**(392)**	**(2)**	**(394)**	(258)	(87)	(345)
Net trading income	3	**914**	**6**	**920**	746	23	769
Other operating income	4	**485**	**6**	**491**	236	26	262
		3,239	**53**	**3,292**	2,448	78	2,526
Operating income		**8,473**	**147**	**8,620**	6,002	859	6,861
Staff costs		**(2,873)**	**(40)**	**(2,913)**	(1,834)	(311)	(2,145)
Premises costs		**(439)**	**(5)**	**(444)**	(321)	(42)	(363)
General administrative expenses		**(1,144)**	**(27)**	**(1,171)**	(861)	(159)	(1,020)
Depreciation and amortisation	5	**(249)**	**(19)**	**(268)**	(216)	(67)	(283)
Operating expenses		**(4,705)**	**(91)**	**(4,796)**	(3,232)	(579)	(3,811)
Operating profit before impairment losses and taxation		**3,768**	**56**	**3,824**	2,770	280	3,050
Impairment losses on loans and advances and other credit risk provisions		**(611)**	**(18)**	**(629)**	(266)	(53)	(319)
Other impairment	6	**(15)**	**–**	**(15)**	(50)	–	(50)
Loss from associates		**(2)**	**–**	**(2)**	–	–	–
Profit before taxation		**3,140**	**38**	**3,178**	2,454	227	2,681
Taxation	7	**(812)**	**(12)**	**(824)**	(657)	(53)	(710)
Profit for the year		**2,328**	**26**	**2,354**	1,797	174	1,971

Profit attributable to:							
Minority interests	26	**75**	**1**	**76**	25	–	25
Parent company's shareholders		**2,253**	**25**	**2,278**	1,772	174	1,946
Profit for the year		**2,328**	**26**	**2,354**	1,797	174	1,971
Basic earnings per ordinary share	9			**169.0c**			148.5c
Diluted earnings per ordinary share	9			**167.0c**			146.9c

Paid and proposed dividends per ordinary share:		**Cents**	Cents
Interim paid	8	**20.83**	18.94
Final proposed*	8	**50.21**	45.06
		71.04	64.00

		$million	$million
Interim dividend	8	**277**	248
Final proposed dividend*	8	**695**	595
		972	843

* The final dividend will be accounted for in 2007 as explained in note 8 on page 40.

Consolidated Balance Sheet
As at 31 December 2006

	Notes	2006 $million	2005 $million
Assets			
Cash and balances at central banks		**7,698**	8,012
Financial assets held at fair value through profit or loss	11	**15,715**	10,333
Derivative financial instruments	12	**13,154**	9,370
Loans and advances to banks	13	**19,724**	21,701
Loans and advances to customers	13	**139,330**	111,791
Investment securities	15	**49,487**	37,863
Interests in associates		**218**	128
Goodwill and intangible assets		**6,146**	4,321
Property, plant and equipment		**2,168**	1,644
Deferred tax assets		**538**	498
Other assets		**8,601**	7,163
Prepayments and accrued income		**3,268**	2,272
Total assets		**266,047**	215,096
Liabilities			
Deposits by banks	17	**26,233**	18,834
Customer accounts	18	**147,382**	119,931
Financial liabilities held at fair value through profit or loss	19	**9,969**	6,293
Derivative financial instruments	12	**13,703**	9,864
Debt securities in issue	20	**23,514**	25,913
Current tax liabilities		**68**	283
Other liabilities	21	**11,355**	8,446
Accruals and deferred income		**3,210**	2,319
Provisions for liabilities and charges		**45**	55
Retirement benefit obligations	22	**472**	476
Subordinated liabilities and other borrowed funds	23	**12,699**	10,349
Total liabilities		**248,650**	202,763
Equity			
Share capital	24	**692**	660
Reserves	25	**16,161**	11,222
Total parent company's shareholders' equity		**16,853**	11,882
Minority interests	26	**544**	451
Total equity		**17,397**	12,333
Total equity and liabilities		**266,047**	215,096

Consolidated Statement of Recognised Income and Expenses
For the year ended 31 December 2006

	Notes	2006 $million	2005 $million
Exchange differences on translation of foreign operations		**670**	(90)
Actuarial gains/(losses) on retirement benefits	22	**104**	(150)
Available for sale investments:			
Valuation gains taken to equity		**682**	7
Transferred to income on disposal/redemption		**(190)**	(107)
Cash flow hedges:			
Gains/(Losses) taken to equity		**79**	(65)
(Gains)/Losses transferred to income for the year		**20**	(20)
Taxation on items recognised directly in equity		**(131)**	141
Other		**7**	1
Net income/(expense) recognised in equity		**1,241**	(283)
Profit for the year		**2,354**	1,971
Total recognised income and expenses for the year		**3,595**	1,688

Attributable to:			
Parent company's shareholders	25	**3,484**	1,663
Minority interests	26	**111**	25
		3,595	1,688

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	2006 $million	2005 $million
Cash flow from operating activities		
Profit before taxation	**3,178**	2,681
Adjustment for items not involving cash flow or shown separately:		
Depreciation and amortisation	**268**	283
(Gain)/loss on disposal of property, plant and equipment	**(16)**	1
Gain on disposal of investment securities	**(190)**	(107)
Amortisation of investments	**(257)**	17
Impairment losses	**629**	319
Other impairment	**15**	50
Assets written off, net of recoveries	**(940)**	(718)
Decrease in accruals and deferred income	**786**	952
Increase in prepayments and accrued income	**(901)**	(1,248)
Net increase in mark-to-market adjustment	**45**	939
Interest accrued on subordinated loan capital	**643**	388
UK and overseas taxes paid	**(903)**	(611)
Net increase in treasury bills and other eligible bills	**(644)**	(686)
Net increase in loans and advances to banks and customers	**(11,664)**	(5,730)
Net increase in deposits from banks, customer accounts and debt securities in issue	**16,914**	18,996
Net increase in trading securities	**(3,615)**	(1,494)
Net increase/(decrease) in other accounts	**5,074**	(3,982)
Net cash from operating activities	**8,422**	10,050
Net cash flows from investing activities		
Purchase of property plant and equipment	**(245)**	(135)
Acquisition of investment in subsidiaries, net of cash acquired	**(937)**	(1,093)
Acquisition of treasury bills and other eligible bills	**(23,376)**	(13,443)
Acquisition of debt securities	**(47,411)**	(33,655)
Acquisition of equity shares	**(328)**	(658)
Disposal of property, plant and equipment	**40**	8
Disposal and maturity of treasury bills	**22,650**	12,599
Disposal and maturity of debt securities	**40,909**	35,748
Disposal of equity shares	**337**	351
Net cash used in investing activities	**(8,361)**	(278)
Net cash flows from financing activities		
Issue of ordinary share capital	**1,996**	2,000
Purchase of own shares, net of exercise, for share option awards	**149**	(73)
Interest paid on subordinated loan capital	**(562)**	(297)
Gross proceeds from issue of subordinated loan capital	**1,591**	3,874
Repayment of subordinated liabilities	**(390)**	(1,026)
Dividends and payments to minority interests and preference shareholders	**(80)**	(173)
Dividends paid to ordinary shareholders	**(496)**	(685)
Net cash from financing activities	**2,208**	3,620
Net increase in cash and cash equivalents	**2,269**	13,392
Cash and cash equivalents at beginning of year	**35,226**	22,112
Effect of exchange rate change on cash and cash equivalents	**666**	(278)
Cash and cash equivalents at end of year (note 27)	**38,161**	35,226

1. Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") Interpretations as adopted by the EU (together "adopted IFRS").

The Group retrospectively adopted Amendment to IAS 21 – Net Investment in a Foreign Operation, Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts, Amendment to IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions and IFRIC Interpretation 4, 'Determining whether an arrangement contains a lease'. None of these had an impact on the Group's consolidated financial statements.

A summary of the Group's significant accounting policies will be included in the 2006 Annual Report.

2. Segmental Information

The Group is organised on a worldwide basis into two main business segments: Wholesale Banking and Consumer Banking. The types of products and services within these segments are set out in the Financial Review. The Group's secondary reporting format comprises geographical segments.

By Class of Business

	2006				2005			
	Consumer Banking $million	**Wholesale Banking $million**	**Corporate items not allocated $million**	**Total $million**	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million
Internal income**	**(75)**	**75**	**–**	**–**	(34)	34	–	–
Net interest income	**3,545**	**1,783**	**–**	**5,328**	2,916	1,419	–	4,335
Other income	**1,214**	**2,065**	**13**	**3,292**	920	1,606	–	2,526
Operating income	**4,684**	**3,923**	**13**	**8,620**	3,802	3,059	–	6,861
Operating expenses	**(2,641)**	**(2,151)**	**(4)**	**(4,796)**	(2,101)	(1,710)	–	(3,811)
Operating profit before impairment losses and taxation	**2,043**	**1,772**	**9**	**3,824**	1,701	1,349	–	3,050
Impairment (losses)/releases on loans and advance and other credit risk provisions	**(721)**	**92**	**–**	**(629)**	(425)	106	–	(319)
Other impairment	**–**	**(15)**	**–**	**(15)**	(3)	(11)	(36)	(50)
Loss from associates	**–**	**–**	**(2)**	**(2)**	–	–	–	–
Profit before taxation	**1,322**	**1,849**	**7**	**3,178**	1,273	1,444	(36)	2,681
Total assets employed	**88,538**	**176,971**	***538**	**266,047**	74,134	140,464	*498	215,096
Total liabilities employed	**107,141**	**141,441**	***68**	**248,650**	79,008	123,472	*283	202,763
Total risk weighted assets and contingents	**60,380**	**93,063**	**–**	**153,443**	52,054	73,870	–	125,924
Other segment items:								
Capital expenditure	**209**	**150**	**–**	**359**	114	109	–	223
Depreciation	**100**	**35**	**–**	**135**	87	39	–	126
Amortisation of intangible assets	**52**	**81**	**–**	**133**	74	83	–	157

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

** Internal income was restated in 2005 as the Group refined its method for charging and allocating expense for capital in 2006. The restatement had no effect on total income. Consumer Banking income decreased by $5 million and Wholesale Banking increased by $5 million.

2. Segmental Information continued

By geographic segment

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

	2006									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Internal income	(14)	3	(2)	50	17	(17)	(7)	(10)	(20)	–
Net interest income	1,115	345	242	1,097	788	445	660	396	240	5,328
Fees and commissions income, net	406	159	50	152	302	204	296	160	152	1,881
Net trading income	74	56	60	64	166	101	115	91	193	920
Other operating income	34	59	21	159	111	84	6	3	14	491
Operating income	1,615	622	371	1,522	1,384	817	1,070	640	579	8,620
Operating expenses	(720)	(294)	(164)	(972)	(785)	(375)	(514)	(413)	(559)	(4,796)
Operating profit before impairment losses and taxation	895	328	207	550	599	442	556	227	20	3,824
Impairment (losses)/releases on loans and advances and other credit risk provisions	(7)	(39)	(29)	(96)	(384)	(39)	(53)	(26)	44	(629)
Other impairment	–	–	–	–	(3)	–	–	(9)	(3)	(15)
Loss from associates	–	–	–	–	(4)	–	–	–	2	(2)
Profit before taxation	888	289	178	454	208	403	503	192	63	3,178
Loans and advances to customers – average	22,859	12,976	8,671	38,986	12,261	5,876	9,531	2,397	10,415	123,972
Net interest margins (%)	2.3	1.3	2.1	1.9	3.0	3.4	3.8	5.7	0.3	2.5
Loans and advances to customers – period end	22,037	14,626	9,199	40,029	22,872	6,242	10,525	2,536	12,458	140,524
Loans and advances to banks – period end	6,474	939	161	1,753	4,462	477	1,058	387	5,353	21,064
Total assets employed*	49,831	25,393	11,846	64,159	46,874	14,382	18,112	7,792	65,904	304,293
Total risk weighted assets and contingents	23,784	13,681	5,315	35,330	24,876	8,450	13,572	3,287	28,282	156,577
Capital expenditure	78	65	3	35	49	22	37	13	57	359

* Total assets employed includes intra-group items of $38,784 million and excludes deferred tax assets of $538 million.

2. Segmental Information continued

	2005									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Internal income*	21	7	6	(1)	13	(7)	5	(14)	(30)	–
Net interest income	935	270	214	826	626	337	478	380	269	4,335
Fees and commissions Income, net	352	139	60	45	225	151	234	151	138	1,495
Net trading income	101	84	44	63	165	72	89	31	120	769
Other operating income	75	14	11	24	28	40	6	5	59	262
Operating income	1,484	514	335	957	1,057	593	812	553	556	6,861
Operating expenses	(649)	(246)	(150)	(632)	(610)	(306)	(339)	(399)	(480)	(3,811)
Operating profit before impairment losses and taxation	835	268	185	325	447	287	473	154	76	3,050
Impairment (losses)/releases on loans and advances and other credit risk provisions	(117)	(43)	(30)	(61)	(49)	(50)	9	(43)	65	(319)
Other impairment	(1)	–	–	–	–	1	–	(47)	(3)	(50)
Profit before taxation	717	225	155	264	398	238	482	64	138	2,681
Loans and advances to customers – average	22,148	11,966	6,521	23,315	9,971	5,107	7,917	2,088	9,819	98,852
Net interest margin (%)	2.2	1.1	2.2	2.0	3.0	3.3	3.2	7.3	0.5	2.5
Loans and advances to customers – period end	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Loans and advances to banks – period end	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959
Total assets employed**	49,943	23,602	10,409	59,929	24,141	10,943	12,902	5,606	37,083	234,558
Total risk weighted assets and contingents	21,281	11,770	5,224	31,850	15,140	6,369	9,304	2,732	24,256	127,926
Capital expenditure	36	43	6	42	34	18	11	13	20	223

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

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

Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. In the year in which an acquisition is made the Group does not charge or allocate the benefit of the Group's capital and the distribution of central expenses is phased in over two years, based on an estimate of central management costs associated with the acquisition.

In 2006, corporate items not allocated to businesses relate to costs associated with the buyback of subordinated debt in Korea, pre-incorporation costs in China and the gain realised on the effective part disposal of the Standard Chartered Bank branches in Pakistan as set out in note 16. In 2005, other impairment included a provision made in respect of exposures in Zimbabwe. This was included in the geographic segmental information, but was not allocated to businesses in the business segmental information.

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

Total risk weighted assets and contingents include $3,134 million (31 December 2005: $2,002 million) of balances which are netted in calculating capital ratios.

Capital expenditure comprises additions to property and equipment and intangibles including additions resulting from acquisitions.

2. **Segmental Information** continued

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

2006

	Asia Pacific									
	Hong Kong $million	**Singapore $million**	**Malaysia $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Group Head Office $million**	**Total $million**
Non interest bearing current and demand accounts	**3,320**	**1,722**	**1,435**	**163**	**2,123**	**2,082**	**3,654**	**1,649**	**894**	**17,042**
Interest bearing current and demand accounts	**16,894**	**2,964**	**261**	**15,263**	**5,456**	**5**	**1,300**	**1,136**	**5,529**	**48,808**
Savings deposits	**10**	**1,857**	**741**	**11**	**11,089**	**1,451**	**1,685**	**449**	**–**	**17,293**
Time deposits	**18,961**	**9,754**	**5,211**	**16,682**	**12,293**	**4,073**	**6,901**	**1,575**	**13,574**	**89,024**
Other deposits	**14**	**7**	**750**	**1,756**	**1,507**	**241**	**568**	**140**	**260**	**5,243**
Total	**39,199**	**16,304**	**8,398**	**33,875**	**32,468**	**7,852**	**14,108**	**4,949**	**20,257**	**177,410**
Deposits by banks	**734**	**1,276**	**597**	**9,297**	**5,869**	**871**	**1,968**	**323**	**7,187**	**28,122**
Customer accounts	**38,465**	**15,028**	**7,801**	**24,578**	**26,599**	**6,981**	**12,140**	**4,626**	**13,070**	**149,288**
	39,199	**16,304**	**8,398**	**33,875**	**32,468**	**7,852**	**14,108**	**4,949**	**20,257**	**177,410**
Debt securities in issue	**627**	**1,087**	**992**	**17,561**	**1,597**	**932**	**12**	**171**	**3,820**	**26,799**
Total	**39,826**	**17,391**	**9,390**	**51,436**	**34,065**	**8,784**	**14,120**	**5,120**	**24,077**	**204,209**

2005

	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Non interest bearing current and demand accounts	2,998	2,001	1,120	216	1,343	1,928	2,855	1,359	473	14,293
Interest bearing current and demand accounts	12,753	2,063	148	13,554	3,612	3	1,110	1,264	4,534	39,041
Savings deposits	6	1,383	459	12	2,478	1,286	1,369	368	–	7,361
Time deposits	17,893	11,324	4,046	14,542	8,397	3,164	5,179	872	10,675	76,092
Other deposits	20	49	1,120	1,322	748	11	432	97	626	4,425
Total	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Deposits by banks	627	3,641	652	4,742	3,517	676	1,893	98	4,427	20,273
Customer accounts	33,043	13,179	6,241	24,904	13,061	5,716	9,052	3,862	11,881	120,939
	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Debt securities in issue	840	1,111	619	19,815	741	655	–	85	3,548	27,414
Total	34,510	17,931	7,512	49,461	17,319	7,047	10,945	4,045	19,856	168,626

3. Net Trading Income

	2006 $million	2005 $million
Gains less losses on foreign currency	**645**	613
Gains less losses on trading securities	**109**	(19)
Other trading profits	**166**	175
	920	769

4. Other Operating Income

	2006 $million	2005 $million
Other operating income includes:		
Gains less losses on disposal of available-for-sale financial assets	**190**	107
Dividend income	**77**	62
Gains arising on assets fair valued at acquisition	**106**	–
Gain on effective part disposal of Pakistan branches	**17**	–

5. Depreciation and Amortisation

	2006 $million	2005 $million
Premises	**57**	53
Equipment	**78**	73
Intangibles:		
Software	**81**	125
Acquired on business combinations	**52**	32
	268	283

6. Other Impairment

	2006 $million	2005 $million
Goodwill	**–**	2
Other	**15**	48
	15	50

Other impairment mainly comprises provision for exposures in Zimbabwe.

7. Taxation

Analysis of taxation charge in the year:

	2006 $million	2005 $million
The charge for taxation based upon the profits for the year comprises:		
United Kingdom corporation tax at 30 per cent (2005: 30 per cent):		
Current tax on income for the year	**229**	326
Adjustments in respect of prior periods (including double taxation relief)	**(244)**	4
Double taxation relief	**(208)**	(308)
Foreign tax:		
Current tax on income for the year	**868**	671
Adjustments in respect of prior periods	**33**	(18)
Total current tax	**678**	675
Deferred tax:		
Origination/reversal of temporary differences	**146**	35
Tax on profits on ordinary activities	**824**	710
Effective tax rate	**25.9%**	26.5%

Overseas taxation includes taxation on Hong Kong profits of $166 million (2005: $131 million) provided at a rate of 17.5 per cent (2005: 17.5 per cent) on the profits assessable in Hong Kong.

8. Dividends

Ordinary Equity Shares	2006 Cents per share	2006 $million	2005 Cents per share	2005 $million
Final dividend declared and paid during the period	**45.06**	**595**	40.44	524
Interim dividends declared and paid during the period	**20.83**	**277**	18.94	248
	65.89	**872**	59.38	772

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior years. The 2006 final dividend of 50.21 cents per share ($695 million) will be paid in either sterling, Hong Kong dollars or US dollars on 11 May 2007 to shareholders on the UK register of members at the close of business in the UK on 9 March 2007, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00am Hong Kong time) on 9 March 2007. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend will be sent to shareholders on or around 26 March 2007.

Preference Shares		2006 $million	2005 $million
Non-cumulative irredeemable preference shares:	7 $^{3}/_{8}$ per cent preference shares of £1 each*	**14**	14
	8 $^{1}/_{4}$ per cent preference shares of £1 each*	**15**	15
Non-cumulative redeemable preference shares:	8.9 per cent preference shares of $5 each	**22**	29
	6.409 per cent preference shares of $5 each	**3**	–

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

9. Earnings Per Ordinary Share

	2006			2005		
	Profit* $million	Weighted average number of shares ('000)	Per share amount cents	Profit* $million	Weighted average number of shares ('000)	Per share amount cents
Basic earnings per ordinary share	**2,253**	**1,332,985**	**169.0**	1,917	1,290,916	148.5
Effect of dilutive potential ordinary shares:						
Convertible bonds	**–**	**–**		7	10,346	
Options	**–**	**16,050**		–	8,678	
Diluted earnings per share	**2,253**	**1,349,035**	**167.0**	1,924	1,309,940	146.9

Normalised earnings per ordinary share
The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33, Earnings per share. The table below provides a reconciliation.

	2006 $million	2005 $million
Profit attributable to ordinary shareholders*	**2,253**	1,917
Premium and costs paid on repurchase of subordinated debt	**4**	–
Amortisation of intangible assets arising on business combinations	**52**	32
Profit on sale of property, plant and equipment	**(16)**	–
Gain on effective part disposal of Pakistan branches	**(17)**	–
Pre-incorporation costs in China	**4**	–
Other impairment	**–**	42
Tax on normalised items	**(5)**	(7)
Normalised earnings	**2,275**	1,984
Normalised earnings per ordinary share	**170.7c**	153.7c

* The profit amounts represent the profit attributable to ordinary shareholders i.e. after the deduction of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 8).

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculations had they been issued prior to the end of the balance sheet period.

10. Financial Instruments Classification Summary

Financial instruments are classified between four recognition principles: at fair value through profit or loss (comprising trading and designated), available-for-sale, held-to-maturity and loans and receivables. The face of the balance sheet combines financial instruments that are held at their fair value and subdivided between those assets and liabilities held for trading purposes and those that the Group has elected to hold at fair value.

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

	Trading $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Loans and receivables $million	Held to-maturity $million	Total $million
Loans and advances to banks	**1,340**	**–**	**–**	**19,724**	**–**	**21,064**
Loans and advances to customers	**1,000**	**194**	**–**	**139,330**	**–**	**140,524**
Treasury bills and other eligible bills	**2,722**	**696**	**12,522**	**–**	**–**	**15,940**
Debt securities	**8,906**	**695**	**32,701**	**2,649**	**137**	**45,088**
Equity shares	**162**	**–**	**1,478**	**–**	**–**	**1,640**
Total assets at 31 December 2006	**14,130**	**1,585**	**46,701**	**161,703**	**137**	**224,256**
Loans and advances to banks	1,258	–	30	21,671	–	22,959
Loans and advances to customers	230	156	105	111,686	–	112,177
Treasury bills and other eligible bills	2,223	492	10,199	–	–	12,914
Debt securities	5,612	244	25,231	1,264	215	32,566
Equity shares	118	–	954	–	–	1,072
Total assets at 31 December 2005	9,441	892	36,519	134,621	215	181,688

	Trading $million	Designated at fair value through profit or loss $million	Amortised cost $million	Total $million
Due to banks	**1,286**	**603**	**26,233**	**28,122**
Customer accounts	**485**	**1,421**	**147,382**	**149,288**
Debt securities in issue	**1,514**	**1,771**	**23,514**	**26,799**
Short positions	**2,889**	**–**	**–**	**2,889**
Total liabilities at 31 December 2006	**6,174**	**3,795**	**197,129**	**207,098**
Due to banks	1,102	337	18,834	20,273
Customer accounts	394	614	119,931	120,939
Debt securities in issue	1,068	433	25,913	27,414
Short positions	2,345	–	–	2,345
Total liabilities at 31 December 2005	4,909	1,384	164,678	170,971

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

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. Derivatives are recorded at fair value whereas loans and advances are usually recorded at amortised cost. To significantly reduce the accounting mismatch between fair value and amortised cost, these loans and advances and debt securities have been designated at fair value through profit or loss. The group ensures the criteria under 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.

	2006			2005		
	Trading $million	**Designated at fair value through profit or loss $million**	**Total $million**	Trading $million	Designated at fair value through profit or loss $million	Total $million
Loans and advances to banks	**1,340**	**–**	**1,340**	1,258	–	1,258
Loans and advances to customers	**1,000**	**194**	**1,194**	230	156	386
Treasury bills and other eligible bills	**2,722**	**696**	**3,418**	2,223	492	2,715
Debt securities	**8,906**	**695**	**9,601**	5,612	244	5,856
Equity shares	**162**	**–**	**162**	118	–	118
	14,130	**1,585**	**15,715**	9,441	892	10,333

Debt securities

	2006 $million	2005 $million
Issued by public bodies:		
Government securities	**2,321**	1,632
Other public sector securities	**45**	–
	2,366	1,632
Issued by banks:		
Certificates of deposit	**405**	811
Other debt securities	**2,082**	1,028
	2,487	1,839
Issued by corporate entities and other issuers:		
Other debt securities	**4,748**	2,385
Total debt securities	**9,601**	5,856

Of which:		
Listed on a recognised UK exchange	**418**	537
Listed elsewhere	**2,819**	1,526
Unlisted	**6,364**	3,793
	9,601	5,856

Equity shares

Listed elsewhere	**36**	–
Unlisted	**126**	118
Total Equity Shares	**162**	118

12. Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk, and indices. The types of derivatives used by the Group are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow hedging has been achieved, in which case changes in fair value go through reserves).

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

In respect of credit risk arising from the use of derivatives, the Group sets limits on net open positions. The amount of credit risk is the current positive fair value (asset) of the underlying contract. The credit risk is managed as part of the overall lending limits to banks and customers, together with potential exposures from market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as transactions are not usually settled on a net basis.

The Derivatives and Hedging section of the Risk Review on pages 27 and 28 explains the Group's risk management of derivative contracts.

	2006			2005		
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	**434,569**	**3,805**	**4,165**	326,053	5,392	5,884
Currency swaps and options	**295,845**	**4,698**	**4,793**	175,121	351	487
	730,414	**8,503**	**8,958**	501,174	5,743	6,371
Interest rate derivative contracts:						
Swaps	**653,283**	**4,353**	**4,348**	471,652	3,452	3,239
Forward rate agreements and options	**94,244**	**138**	**195**	68,015	72	160
Exchange traded futures and options	**260,182**	**42**	**47**	117,026	43	27
	1,007,709	**4,533**	**4,590**	656,693	3,567	3,426
Credit derivative contracts	**22,195**	**49**	**70**	9,374	45	52
Equity and stock index options	**699**	**18**	**44**	379	3	3
Commodity derivative contracts	**2,469**	**51**	**41**	4,642	12	12
Total derivatives	**1,763,486**	**13,154**	**13,703**	1,172,262	9,370	9,864
Effect of netting		**(6,425)**			*(4,859)	
Net credit risk on derivatives		**6,729**			4,511	

* Restated to present on a consistent basis.

13. Loans and Advances

	2006		2005	
	Loans to banks $million	**Loans to customers $million**	Loans to banks $million	Loans to customers $million
Loans and advances	**21,074**	**142,702**	22,982	113,908
Individual impairment provision	**(9)**	**(1,569)**	(22)	(1,364)
Portfolio impairment provision	**(1)**	**(609)**	(1)	(367)
	21,064	**140,524**	22,959	112,177
Of which: loans and advances held at fair value through profit or loss	**(1,340)**	**(1,194)**	(1,258)	(386)
	19,724	**139,330**	21,701	111,791

The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore and the Other Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Korea residents of $24.0 billion (2005: $22.5 billion) and Hong Kong residents of approximately $11.2 billion (2005: $12.1 billion).

	2006 Total $million	2005 Total $million
At 1 January	**1,754**	1,782
Exchange translation differences	**74**	(25)
Acquisitions	**706**	407
Amounts written off	**(1,068)**	(871)
Recoveries of amounts previously written off	**128**	153
Discount unwind	**(52)**	(48)
Other	**12**	24
New provisions	**1,131**	915
Recoveries/provisions no longer required	**(497)**	(583)
Net charge against profit*	**634**	332
Provisions held at 31 December**	**2,188**	1,754

* The net charge of $634 million (2005: $332 million) comprises $604 million (2005: $255 million) individual impairment charge and $30 million (2005: $77 million) portfolio impairment charge. It excludes provision releases of $11 million (2005: $13 million) for credit commitments and other provisions and impairment charges of $6 million (2005: $nil million) relating to debt securities classified as loans and receivables (note 10).

** The provision of $2,188 million held at 31 December 2006 (2005: $1,754 million) comprises $1,578 million (2005: $1,386 million) individual impairment provision and $610 million (2005: $368 million) portfolio impairment provision.

14. Non-Performing Loans and Advances

	2006 $million	2005 $million
Non-performing loans and advances	**2,779**	2,694
Impairment provisions	**(2,188)**	(1,754)
	591	940

Net non-performing loans and advances comprises loans and advances to banks $9 million (31 December 2005: $24 million) and loans and advances to customers $582 million (31 December 2005: $916 million).

Impairment provisions cover 79 per cent of non-performing lending to customers (2005: 65 per cent).

Impairment provisions for 2006 include $610 million (2005: $368 million) of portfolio impairment provision.

15. Investment Securities

	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Total $million
Treasury and other eligible bills	**–**	**12,522**	**–**	**12,522**
Debt securities	**137**	**32,701**	**2,649**	**35,487**
Equity shares	**–**	**1,478**	**–**	**1,478**
At 31 December 2006	**137**	**46,701**	**2,649**	**49,487**
Treasury and other eligible bills	–	10,199	–	10,199
Debt securities	215	25,231	1,264	26,710
Equity shares	–	954	–	954
At 31 December 2005	215	36,384	1,264	37,863

	2006					
	Debt Securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	**137**	**10,379**	**–**			
Other public sector securities	**–**	**1,403**	**–**			
	137	**11,782**	**–**			
Issued by banks:						
Certificates of deposit	**–**	**8,433**	**2,280**			
Other debt securities	**–**	**9,505**	**178**			
	–	**17,938**	**2,458**			
Issued by corporate entities and other issuers:						
Other debt securities	**–**	**2,981**	**191**			
Total debt securities	**137**	**32,701**	**2,649**			
Listed on a recognised UK exchange	**–**	**6,679**	**–**	**38**	**–**	**6,717**
Listed elsewhere	**113**	**10,183**	**132**	**795**	**7,027**	**18,250**
Unlisted	**24**	**15,839**	**2,517**	**645**	**5,495**	**24,520**
	137	**32,701**	**2,649**	**1,478**	**12,522**	**49,487**

15. Investment Securities continued

	2005					
	Debt Securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	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

The change in the carrying book amount of investment securities comprised:

	2006				2005			
	Debt securities $million	**Equity shares $million**	**Treasury bills $million**	**Total $million**	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
At 1 January	**26,710**	**954**	**10,199**	**37,863**	27,598	292	3,938	31,828
Exchange translation differences	**949**	**9**	**528**	**1,486**	(1,026)	1	(154)	(1,179)
Acquisitions	**1,145**	**21**	**842**	**2,008**	2,327	289	5,622	8,238
Additions	**47,411**	**328**	**23,376**	**71,115**	33,655	658	13,443	47,756
Transfers	**–**	**–**	**–**	**–**	35	(35)	–	–
Maturities and disposals	**(40,909)**	**(337)**	**(22,650)**	**(63,896)**	(35,748)	(351)	(12,599)	(48,698)
Provisions	**(6)**	**(4)**	**(16)**	**(26)**	1	(1)	(33)	(33)
Changes in fair value	**142**	**510**	**28**	**680**	(107)	104	(29)	(32)
Amortisation of discounts and premiums	**45**	**(3)**	**215**	**257**	(25)	(3)	11	(17)
At 31 December	**35,487**	**1,478**	**12,522**	**49,487**	26,710	954	10,199	37,863

Treasury bills and other eligible bills include $393 million (2005: $2,347 million) of bills sold subject to sale and repurchase transactions.

Debt securities include $896 million (2005: $811 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2006, unamortised premiums on debt securities held for investment purposes amounted to $39 million (2005: $59 million) and unamortised discounts amounted to $112 million (2005: $41 million).

Income from listed equity shares amounted to $4 million (31 December 2005: $32 million) and income from unlisted equity shares amounted to $73 million (2005: $30 million).

16. Business Combinations

On 5 September 2006, the Group acquired 95.4 per cent of the share capital of Union Bank Limited ("Union"), a banking group in Pakistan. The acquired business contributed operating income of $51 million and profit before tax of $7 million to the Group for the period from 6 September 2006 to 31 December 2006.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid	**487**
– direct costs relating to the acquisition	**2**
Total purchase consideration	**489**
Fair value of net assets acquired	**83**
Goodwill	**406**

On 30 December 2006, the business and assets of the Standard Chartered Bank branches in Pakistan were transferred into a new entity, Standard Chartered (Pakistan) Limited, the acquiring entity of Union. A share swap was effected for the minority shareholders of Union to swap their Union holdings into those of Standard Chartered (Pakistan) Limited, following which the Group's shareholding increased to 99.0 per cent. Additional goodwill of $17 million was generated as a result of this share swap.

The goodwill is attributable to the significant synergies expected to arise from the development of Union within the Standard Chartered Group and to those intangibles, such as the branch network, which are not recognised separately.

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*	**148**	**148**
Loans and advances to banks	**104**	**104**
Loans and advances to customers	**1,128**	**1,206**
Investment securities	**404**	**411**
Intangibles other than goodwill	**55**	**3**
Property, plant and equipment	**45**	**28**
Deferred tax assets	**40**	**1**
Other assets	**48**	**61**
Total assets	**1,972**	**1,962**
Deposits by banks	**425**	**425**
Customer accounts	**1,320**	**1,309**
Other liabilities	**97**	**96**
Subordinated liabilities and other borrowed funds	**40**	**41**
Total liabilities	**1,882**	**1,871**
Minority interest	**7**	**7**
Net assets acquired	**83**	**84**
Purchase consideration settled in cash	**489**	
Cash and cash equivalents in subsidiary acquired	**(164)**	
Cash outflow on acquisition	**325**	

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

The fair value amounts contain some provisional balances which will be finalised within twelve months of the acquisition date.

16. **Business Combinations** continued

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

	$million
Brand names	**6**
Customer relationships	**13**
Core deposits	**33**
Capitalised software	**3**
Total	**55**

On 29 September the Group launched a tender offer for Hsinchu International Bank ("HIB") and through this acquired 95.4 per cent of the share capital of HIB, a banking group in Taiwan. The effective date of the acquisition, being the date the Group acquired a controlling interest, was 19 October 2006. Subsequent to this, the Group acquired a further 0.8 per cent through share purchase to take its overall share to 96.2 per cent at 31 December 2006. The acquired business contributed operating income of $80 million and profit before tax of $27 million to the Group for the period from 19 October 2006 to 31 December 2006.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid through tender	**1,176**
– cash paid for subsequent purchases	**15**
– direct costs relating to the acquisition	**10**
Total purchase consideration	**1,201**
Fair value of net assets acquired	**253**
Goodwill	**948**

The goodwill is attributable to the significant synergies expected to arise from the development of HIB within the Standard Chartered Group and those intangibles such as its extensive branch network and the workforce in place, with Mandarin speaking capabilities, which are not recognised separately.

16. Business Combinations continued

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

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	**481**	**481**
Financial assets held at fair value through profit or loss	**563**	**563**
Loans and advances to banks	**440**	**440**
Loans and advances to customers	**9,245**	**9,352**
Investment securities	**1,604**	**1,609**
Intangibles other than goodwill	**122**	**–**
Property, plant and equipment	**286**	**307**
Deferred tax assets	**144**	**140**
Other assets	**212**	**213**
Total assets	**13,097**	**13,105**
Deposits by banks	**988**	**988**
Customer accounts	**10,709**	**10,709**
Debt securities in issue	**532**	**532**
Other liabilities	**60**	**57**
Subordinated liabilities and other borrowed funds	**545**	**545**
Total liabilities	**12,834**	**12,831**
Minority interest	**10**	**10**
Net assets acquired	**253**	**264**
Purchase consideration settled in cash	**1,201**	
Cash and cash equivalents in subsidiary acquired	**(589)**	
Cash outflow on acquisition	**612**	

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

Due to the proximity of the acquisition to the year-end the fair value amounts contain some provisional balances which will be finalised within twelve months of the acquisition date.

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

	$million
Brand names	**24**
Customer relationships	**43**
Core deposits	**55**
Total	**122**

If the acquisitions of Union and HIB had occurred on 1 January 2006, the operating income of the Group (excluding the income relating to the incremental stake acquired in Permata) would have been approximately $8,974 million, with contributions of $141 million from Union and $360 million from HIB, and profit before taxation (excluding the profit relating to the incremental stake acquired in Permata) would have been approximately $3,053 million, with Union contributing $38 million and HIB a loss of $125 million.

17. Deposits by Banks

	2006 $million	2005 $million
Deposits by banks	**26,233**	18,834
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 19)	**1,889**	1,439
	28,122	20,273

18. Customer Accounts

	2006 $million	2005 $million
Customer accounts	**147,382**	119,931
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 19)	**1,906**	1,008
	149,288	120,939

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

	2006		
	Trading $million	**Designated at fair value through profit or loss $million**	**Total $million**
Deposits by banks	**1,286**	**603**	**1,889**
Customer accounts	**485**	**1,421**	**1,906**
Debt securities in issue	**1,514**	**1,771**	**3,285**
Short positions	**2,889**	**–**	**2,889**
	6,174	**3,795**	**9,969**

	2005		
	Trading $million	Designated at fair value through profit or loss $million	Total $million
Deposits by banks	1,102	337	1,439
Customer accounts	394	614	1,008
Debt securities in issue	1,068	433	1,501
Short positions	2,345	–	2,345
	4,909	1,384	6,293

20. Debt Securities in Issue

	2006			2005		
	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	**10,939**	**12,575**	**23,514**	14,179	11,734	25,913
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 19)	**1,154**	**2,131**	**3,285**	201	1,300	1,501
	12,093	**14,706**	**26,799**	14,380	13,034	27,414

21. Other Liabilities

Other liabilities include Hong Kong currency notes in circulation of $2,605 million (31 December 2005: $2,492 million) which are secured by the government of Hong Kong certificates of indebtedness of the same amount included in other assets.

22. Retirement Benefit Obligations

Retirement benefit obligations comprise:

	2006 $million	2005 $million
Total market value of assets	**2,339**	1,930
Present value of the schemes' liabilities	**(2,799)**	(2,395)
Defined benefit schemes obligation	**(460)**	(465)
Defined contribution schemes obligation	**(12)**	(11)
Net book amount	**(472)**	(476)

Retirement benefit charge comprises:

	2006 $million	2005 $million
Defined benefit schemes	**96**	71
Defined contribution schemes	**70**	60
	166	131

The pension cost for defined benefit schemes was:

	2006 $million	2005 $million
Current service cost	**80**	72
Past service cost	**9**	–
Gain/(Loss) on settlement and curtailments	**1**	(1)
Expected return on pension scheme assets	**(116)**	(121)
Interest on pension scheme liabilities	**122**	116
Total charge to profit before deduction of tax	**96**	66

Actual less expected return on assets	**(50)**	(111)
Experience (gain)/loss on liabilities	**(54)**	261
(Gain)/Loss recognised in Statement of Recognised Income and Expenses before tax	**(104)**	150
Deferred taxation	**38**	(45)
(Gain)/Loss after tax	**(66)**	105

23. Subordinated Liabilities and Other Borrowed Funds

	2006 $million	2005 $million
Subordinated liabilities and other borrowed funds	**12,699**	10,349

All Subordinated liabilities described above are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreement.

Of Subordinated liabilities and other borrowings, $5,118 million is at fixed interest rates (31 December 2005: $6,151 million).

In March 2006, the Group bought back $221 million 5.75 per cent Upper Tier 2 and $108 million 6.25 per cent Lower Tier 2 Subordinated debt.

On 11 May 2006, the bank issued Innovative Tier 1 capital in the form of £300 million Step-up Callable Preferred Securities at a price of 116.801 per cent, as a tap on the £300 million Preferred Securities issued in May 2001. The two issues were consolidated and formed a single series with effect from 11 May 2006. The Preferred Securities pay an annual coupon of 8.103 per cent and are perpetual, with a call date of 11 May 2016 and at every coupon date thereafter.

On 29 November 2006, the Group issued €675 million Floating Rate Step Up Dated Subordinated Notes due 2018, and $100 million Floating Rate Step Up Dated Subordinated Notes due 2018.

On 15 December 2006, Permata issued IDR 500 billion Floating Rate Notes, which have a maturity of 10 years with an issuer's call option after 5 years.

The KRW40 billion subordinated debt 2006 was redeemed in December 2006.

24. Share Capital

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2005	1,179	590	2	592
Capitalised on scrip dividend	4	2	–	2
Shares issued, net of expenses	133	66	–	66
At 31 December 2005	**1,316**	**658**	**2**	**660**
Capitalised on scrip dividend	**15**	**7**	**–**	**7**
Shares repurchased	**–**	**–**	**(2)**	**(2)**
Shares issued	**53**	**27**	**–**	**27**
At 31 December 2006	**1,384**	**692**	**–**	**692**

On 12 January 2006, the Company issued 3,401,290 new ordinary shares at an average price of 1301 pence per share representing approximately 0.26 per cent of the Company's existing issued ordinary share capital. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited.

On 2 October 2006, the Company repurchased the remaining 328,388 8.9 per cent non-cumulative preference shares. The preference shares were repurchased at a premium of $326 million and were cancelled.

On 4 October 2006, the Company issued 48,500,000 ordinary shares of US$0.50 each at a placing price of 1375 pence per share representing approximately 3.7 per cent of the Company's existing issued ordinary share capital. The issue of ordinary shares was used to acquire HIB.

On 12 May 2006, the Company issued 9,960,348 new ordinary shares instead of the 2005 final dividend. On 11 October 2006, the Company issued 4,912,941 new ordinary shares instead of the 2006 interim dividend.

On 8 December 2006, the Company issued 7,500 non-cumulative redeemable preference shares of $5 each at a placing price of $100,000 each. The shares are redeemable at the option of the Company and have discretionary coupon payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

25. Reserves

	Share** premium account $million	Capital reserve $million	Capital redemption reserve $million	Merger** reserve $million	Available for sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained* earnings $million	Total $million
At 1 January 2005	2,835	5	11	–	73	42	96	5,227	8,289
Recognised income and expenses	–	–	–	–	(50)	(62)	(90)	1,865	1,663
Capitalised on scrip dividend	(2)	–	–	–	–	–	–	–	(2)
Shares issued, net of expenses	201	–	–	1,944	–	–	–	–	2,145
Net own shares adjustment	–	–	–	–	–	–	–	(73)	(73)
Share option expense and related taxation	–	–	–	–	–	–	–	123	123
Dividends net scrip		–	–	–	–	–	–	(712)	(712)
Debt recognition premium	–	–	–	–	–	–	–	(211)	(211)
At 31 December 2005	**3,034**	**5**	**11**	**1,944**	**23**	**(20)**	**6**	**6,219**	**11,222**
Recognised income and expenses	–	**–**	**–**	–	**387**	**71**	**672**	**2,354**	**3,484**
Capitalised on scrip dividend	**(7)**	**–**	**–**	–	**–**	**–**	**–**	**–**	**(7)**
Shares issued, net of expenses	**838**	**–**	**–**	**1,205**	**–**	**–**	**–**	**–**	**2,043**
Shares repurchased	**(326)**	**–**	**2**	–	**–**	**–**	**–**	**(2)**	**(326)**
Net own shares adjustment	**–**	**–**	**–**	–	**–**	**–**	**–**	**149**	**149**
Share option expense and related taxation	**–**	**–**	**–**	–	**–**	**–**	**–**	**115**	**115**
Dividends net scrip	**–**	**–**	**–**	–	**–**	**–**	**–**	**(519)**	**(519)**
At 31 December 2006	**3,539**	**5**	**13**	**3,149**	**410**	**51**	**678**	**8,316**	**16,161**

* Premises revaluation reserve, which represents revaluations made prior to the adoption of IFRS by the Group on 1 January 2004, has been transferred to retained earnings.

** The share premium account has been restated in 2005 to transfer to the Merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

Transaction costs relating to share issues, deducted from reserves, total $20 million (2005: $25 million).

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust ("the 1995 trust"), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust ("the 2004 trust") which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trust. As part of these arrangements Group companies fund, from time to time, the trust to enable the trustee to acquire shares to satisfy these awards. All shares have been acquired through the London Stock Exchange.

The 1995 trust has not acquired any shares in the year ended 31 December 2006 (31 December 2005: 11,700,000 Standard Chartered PLC shares were acquired from the Company for an aggregate price of $211 million). The shares are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Performance Share Plan and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 1995 trust held 2,148,874 (31 December 2005: 13,631,745) shares, of which all (31 December 2005: 11,521,682) have vested unconditionally.

During the current year the 2004 trust has acquired, at market value, 301,952 (31 December 2005: 422,659) Standard Chartered PLC shares for an aggregate price of $9 million (2005: $8 million), which are held in a pool for the benefit of participants under the Group's deferred bonus plan. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 2004 trust held 311,157 (31 December 2005: 409,160) Standard Chartered PLC shares, of which none (31 December 2005: 7,333) have vested unconditionally.

Except as disclosed above, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong during the year ended 31 December 2006.

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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 1 January 2005	396	598	–	960	1,954
Arising on acquisitions	–	–	333	–	333
Appropriation in respect of exchange translation	(43)	(64)	–	(1)	(108)
Other profits attributable to minority interests	26	41	14	52	133
Recognised income and expenses	(17)	(23)	14	51	25
Distributions	(26)	(42)	(11)	(39)	(118)
Reductions	(353)	(533)	–	(857)	(1,743)
At 31 December 2005	**–**	**–**	**336**	**115**	**451**
Arising on acquisitions	**–**	**–**	**–**	**17**	**17**
Income/expenses in equity attributable to minority interests	**–**	**–**	**–**	**35**	**35**
Other profits attributable to minority interests	**–**	**–**	**19**	**57**	**76**
Recognised income and expenses	**–**	**–**	**19**	**92**	**111**
Distributions	**–**	**–**	**(22)**	**(33)**	**(55)**
Increases	**–**	**–**	**–**	**20**	**20**
At 31 December 2006	**–**	**–**	**333**	**211**	**544**

In September 2006, the Group acquired 95.4 per cent of Union and, in October 2006, 96.2 per cent of HIB. Union was subsequently amalgamated with the Standard Chartered Bank branches in Pakistan into Standard Chartered (Pakistan) Limited, increasing the Group's shareholding to 99.0 per cent. Further details are disclosed in note 16.

27. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

	2006 $million	2005 $million
Cash and balances at central banks	**7,698**	8,012
Less restricted balances	**(3,958)**	(4,269)
Treasury bills and other eligible bills	**6,233**	4,049
Loans and advances to banks	**16,084**	17,590
Trading securities	**12,104**	9,844
Total	**38,161**	35,226

28. Net Interest Margin and Interest Spread

	2006 %	2005 %
Net interest margin	**2.5**	2.5
Interest spread	**2.1**	2.2

	$million	**$million**
Average interest earning assets	**211,512**	170,622
Average interest bearing liabilities	**188,715**	151,365

29. Remuneration

The Group employed 59,205 staff at 31 December 2006 (31 December 2005: 43,899).

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

- Support a strong performance-oriented culture and ensure that individual rewards and incentives relate directly to the performance of the individual, the operations and functions for which they are responsible, the Group as a whole and the interests of the shareholders; and
- Maintain competitive 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 37 per cent (2005: 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.

	2006			2005		
	Contract or underlying principal amount $million	**Credit equivalent amount $million**	**Risk weighted amount $million**	Contract or underlying principal amount $million	Credit equivalent amount $million	Risk weighted amount $million
Contingent liabilities*						
Guarantees and irrevocable letters of credit	**18,344**	**12,784**	**9,398**	15,952	11,106	7,704
Other contingent liabilities	**9,046**	**7,139**	**5,418**	6,295	5,134	2,995
	27,390	**19,923**	**14,816**	22,247	16,240	10,699
Commitments*						
Documentary credits and short term trade-related transactions	**5,029**	**1,006**	**845**	3,730	746	572
Forward asset purchases and forward deposits placed	**31**	**31**	**10**	141	141	28
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	**14,083**	**7,042**	**3,693**	11,128	5,564	3,956
Less than one year	**20,543**	**–**	**–**	18,690	–	–
Unconditionally cancellable	**29,858**	**–**	**–**	28,705	–	–
	69,544	**8,079**	**4,548**	62,394	6,451	4,556

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

31. Liquidity Risk

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

The Risk Review on page 28 explains the Group's and Company's risk management with respect to asset and liability management.

	2006				
	Three months or less $million	**Between three months and one year $million**	**Between one year and five years $million**	**More than five years $million**	**Total $million**
Assets					
Cash and balances at central banks	**3,740**	**–**	**–**	**3,958**	**7,698**
Derivative financial instruments	**2,289**	**2,887**	**2,836**	**5,142**	**13,154**
Loans and advances to banks	**16,214**	**2,305**	**2,403**	**142**	**21,064**
Loans and advances to customers	**44,062**	**23,590**	**28,771**	**44,101**	**140,524**
Investment securities	**19,311**	**20,141**	**18,207**	**5,009**	**62,668**
Other assets	**1,316**	**509**	**789**	**18,325**	**20,939**
Total assets	**86,932**	**49,432**	**53,006**	**76,677**	**266,047**
Liabilities					
Deposits by banks	**24,109**	**3,360**	**621**	**32**	**28,122**
Customer accounts	**125,790**	**19,061**	**3,233**	**1,204**	**149,288**
Derivative financial instruments	**2,490**	**3,960**	**2,938**	**4,315**	**13,703**
Debt securities in issue	**8,382**	**9,216**	**8,231**	**970**	**26,799**
Other liabilities	**2,533**	**523**	**887**	**14,096**	**18,039**
Subordinated liabilities and other borrowed funds	**–**	**501**	**2,440**	**9,758**	**12,699**
Total liabilities	**163,304**	**36,621**	**18,350**	**30,375**	**248,650**
Net liquidity gap	**(76,372)**	**12,811**	**34,656**	**46,302**	**17,397**

	2005				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	4,372	–	23	3,617	8,012
Derivative financial instruments	3,668	2,055	1,960	1,687	9,370
Loans and advances to banks	18,090	2,623	2,164	82	22,959
Loans and advances to customers	31,770	20,303	23,196	36,908	112,177
Investment securities	14,764	13,818	13,177	4,793	46,552
Other assets	2,295	360	690	12,681	16,026
Total assets	74,959	39,159	41,210	59,768	215,096
Liabilities					
Deposits by banks	16,597	2,740	879	57	20,273
Customer accounts	103,289	14,451	2,371	828	120,939
Derivative financial instruments	4,290	2,365	2,810	399	9,864
Debt securities in issue	7,246	14,168	5,064	936	27,414
Other liabilities	1,919	587	732	10,686	13,924
Subordinated liabilities and other borrowed funds	–	–	2,741	7,608	10,349
Total liabilities	133,341	34,311	14,597	20,514	202,763
Net liquidity gap	(58,382)	4,848	26,613	39,254	12,333

32. Fair Value of Financial Assets and Liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2006		2005	
	Book amount $million	**Fair value $million**	Book amount $million	Fair value $million
Assets				
Cash and balances at central banks	**7,698**	**7,698**	8,012	8,012
Loans and advances to banks	**19,724**	**19,727**	21,671	21,671
Loans and advances to customers	**139,330**	**139,677**	111,686	111,863
Investment securities	**2,786**	**2,754**	1,479	1,470
Liabilities				
Deposits by banks	**26,233**	**26,184**	18,834	18,834
Customer accounts	**147,382**	**147,492**	119,931	119,922
Debt securities in issue	**23,514**	**23,518**	25,913	25,883
Subordinated liabilities and other borrowed funds	**12,699**	**12,877**	10,349	10,543

33. Market Risk

Trading book

	2006				2005			
	Average $million	**High $million**	**Low $million**	**Actual $million**	Average $million	High $million	Low $million	Actual $million
Daily value at risk:								
Interest rate risk	**3.5**	**5.3**	**2.5**	**3.9**	4.0	5.5	3.1	3.9
Foreign exchange risk	**2.6**	**4.1**	**1.4**	**1.5**	1.5	2.8	1.0	1.1
Total	**4.3**	**5.6**	**3.1**	**4.0**	4.3	5.9	3.3	3.9

This note should be read in conjunction with the market risk section of the Risk Review on page 27 which explains the Group's market risk management.

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

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

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

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

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

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR Model.

VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the GRC.

34. Restatement of prior periods

Segmental analysis

The Group has refined its method of charging for and allocating capital and as a consequence the segmental result for the year ended 31 December 2005 has been restated. There has been no effect on the Group's total reported numbers but the effect on the business and geographic segments is set out below.

	2005			
	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million
Operating income as previously reported	3,807	3,054	–	6,861
Restatement	(5)	5	–	–
Operating income as restated	3,802	3,059	–	6,861

	2005									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Operating income as previously reported	1,512	510	333	954	1,054	590	808	551	549	6,861
Restatement	(28)	4	2	3	3	3	4	2	7	–
Operating income as restated	1,484	514	335	957	1,057	593	812	553	556	6,861

35. Post Balance Sheet Events

On 26 January 2007, the Group announced the sale of its mutual funds manufacturing business in India to a subsidiary of UBS for a total cash consideration of approximately $120 million. The transaction is expected to complete in the second half of 2007, subject to regulatory approvals.

On 27 February 2007 a dividend of 50.21 cents per share was recommended.

36. Corporate Governance

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

37. UK and Hong Kong accounting requirements

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

On 1 January 2005, the group converted from UK GAAP to IFRS adopted for use by the EU. The consolidated financial statements for the Group for the year ended 31 December 2006, including 2005 comparatives, have been prepared accordingly. There are no material differences in accounting practices between IFRS and Hong Kong Financial Reporting Standards.

Summarised Consolidated Income Statement (unaudited)

First half and second half 2006

	1st half 2006 $million	2nd half 2006 $million	2006 $million
Interest income	5,970	7,017	**12,987**
Interest expense	(3,460)	(4,199)	**(7,659)**
Net interest income	2,510	2,818	**5,328**
Fees and commission income	1,103	1,172	**2,275**
Fees and commission expense	(209)	(185)	**(394)**
Net trading income	531	389	**920**
Other operating income	177	314	**491**
	1,602	1,690	**3,292**
Operating income	4,112	4,508	**8,620**
Staff costs	(1,381)	(1,532)	**(2,913)**
Premises costs	(206)	(238)	**(444)**
General administrative expenses	(519)	(652)	**(1,171)**
Depreciation and amortisation	(119)	(149)	**(268)**
Operating expenses	(2,225)	(2,571)	**(4,796)**
Operating profit before impairment losses and taxation	1,887	1,937	**3,824**
Impairment losses on loans and advances and other credit risk provisions	(349)	(280)	**(629)**
Other impairment	(8)	(7)	**(15)**
(Loss)/profit from associates	(3)	1	**(2)**
Profit before taxation	1,527	1,651	**3,178**
Taxation	(395)	(429)	**(824)**
Profit for the year	1,132	1,222	**2,354**
Profit attributable to:			
Minority interest	29	47	**76**
Parent company's shareholders	1,103	1,175	**2,278**
Profit for the year	1,132	1,222	**2,354**
Basic earnings per ordinary share	82.8c	86.9c	**169.0c**
Diluted earnings per ordinary share	82.2c	86.0c	**167.0c**

Financial Calendar

Ex-dividend date	7 March 2007
Record date	9 March 2007
Expected posting to shareholders of 2006 Report and Accounts	26 March 2007
Annual General Meeting	3 May 2007
Payment date – final dividend on ordinary shares	11 May 2007

Copies of this statement are available from:

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The following information will be available on our website

- *A live webcast of the annual results analyst presentation (available from 9.45 am GMT)*
- *The archived webcast and Q/A session of analyst presentation in London (available 2 pm GMT)*
- *Interviews with Peter Sands, Group Chief Executive Officer and Richard Meddings, Group Finance Director available from 8.15am 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 2006 Annual Report will be made available on the website of the Stock Exchange of Hong Kong and on our website http://investors.standardchartered.com *as soon as is practicable.*

Forward looking statements

It is possible that this document could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

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