

Standard Chartered's operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which Standard Chartered has offices, branches and subsidiaries. These authorities impose certain reserve and reporting requirements and controls (e.g., capital adequacy, depositor protection and prudential supervision) on banks. In addition, a number of countries in which Standard Chartered operates impose additional limitations on (or that affect) foreign or foreign-owned or controlled banks and financial institutions, including:

- restrictions on the opening of local offices, branches or subsidiaries and the types of activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition of local banks or requiring a specified percentage of local ownership; and
- restrictions on investment and other financial flows entering or leaving the country.

Changes in the supervisory and regulatory regimes of the countries where Standard Chartered operates, particularly in Asia, the Middle East and Africa, will determine to some degree the services and products that Standard Chartered will be able to offer in those markets and how Standard Chartered structures specific operations there.

United Kingdom Regulation and Supervision

UK banking institutions such as Standard Chartered are regulated by the FSA under FSMA and the secondary legislation which supplements it. Pursuant to its rule-making powers under FSMA, the FSA issues rules and guidance, including prudential criteria for authorised banks, which are contained in the FSA Handbook.

Under FSMA, the FSA is also responsible for the regulation of entities conducting investment business in the U.K. Thus, it is responsible for regulating Standard Chartered's activities in the U.K. in securities and contractually-based investments, and its investment management business.

The FSA monitors authorised institutions through interviews and the review of periodically required reports relating to financial and prudential matters. The FSA may obtain independent reports, usually from the auditors of the authorised institution, as to the adequacy of systems governing internal control as well as systems governing records and accounting. The FSA may also object, on prudential grounds, to persons who hold, or intend to hold, ten per cent. or more of the voting power of an institution.

As the supervisor of Standard Chartered on a consolidated basis, the FSA receives information on the capital adequacy of, and sets requirements for, Standard Chartered as a whole. The FSA regularly meets Standard Chartered senior executives to confirm Standard Chartered's adherence to the FSA's prudential guidelines. The FSA and senior executives regularly discuss fundamental matters relating to Standard Chartered's business, such as strategic and operating plans, risk control, loan portfolio composition and organisational changes.

The E.U. periodically issues directives or regulations relating to banking and securities regulation and to sales of personal financial services. E.U. provisions are required to be implemented into U.K. law or, in certain cases to take effect directly as part of U.K. law. In the area of bank capital regulation, the E.U. follows, as a minimum, the standards set by the Basel Capital Accord (the “Accord”). The Accord is in the process of being revised, and the E.U. is proposing to up-date the E.U. capital adequacy regime in response. Within the U.K., the FSA is proposing to implement a new capital adequacy framework for a risk-based regime which is also intended to incorporate the provisions of the new Accord. These developments are expected to affect bank capital regulation in due course, but Standard Chartered is not currently in a position to predict what the effects will be.

Hong Kong Regulation and Supervision

Banking in Hong Kong is primarily subject to the provisions of the Banking Ordinance, and to the powers, functions and duties given by the Banking Ordinance to the HKMA. The principal function of the HKMA is to promote the general stability and effective working of the banking system in Hong Kong. The HKMA is responsible for supervising compliance with the provisions of the Banking Ordinance and also supervises compliance with the HKMA’s guidelines, and legislation promulgated by the Securities and Futures Commission. The Chief Executive of Hong Kong (the “Chief Executive”) has the power to give directions to the HKMA, which the Banking Ordinance requires the HKMA and the Financial Secretary of Hong Kong (the “Financial Secretary”) to follow. The Banking Advisory Committee, whose members are appointed by the Financial Secretary under the delegated authority conferred by the Chief Executive and chaired by the Financial Secretary, advises the Chief Executive on matters connected with the Banking Ordinance. In particular it advises in relation to banks and the carrying on of banking business in Hong Kong.

The HKMA has responsibility for authorising banks, and has discretion to attach conditions to its authorisation. The HKMA expects every authorised institution to have in place a comprehensive risk management system to identify, measure, monitor and control the various types of risks within its activities and, where appropriate, to hold capital against those risks.

The HKMA adopts a risk-based supervisory approach which seeks to determine whether authorised institutions have appropriate systems of risk management and internal control. This approach involves the preparation of an institutional overview (based primarily on internal and public sources of data, as well as information gathered from periodic on-site visits) and a risk assessment narrative designed to identify the type, level and direction of risks of an authorised institution. The HKMA will prepare a planning and scope memorandum for the purpose of planning the supervisory work and defining the examination activities. A risk-focused on-site examination is performed to evaluate the effectiveness of the risk management system of the authorised institution for each type of inherent risk. The results of this exercise are factored into the CAMEL rating (CAMEL is an internationally recognised framework for assessing Capital adequacy, Asset quality, Management, Earnings and Liquidity. The overall rating is expressed through the use of a numerical scale of 1 to 5 in ascending order of supervisory concern.) The process is complemented by “on-site”

visitations, prudential interviews with the senior managers and overseas head offices and annual tripartite meetings with the institution and its external auditors.

After consultation with the Financial Secretary, the HKMA may, in certain circumstances set out in the Banking Ordinance, temporarily suspend authorisation of an institution for up to 14 days when it considers that it is necessary that urgent action be taken, or further, for up to six months, which may be renewed for an additional six months if it is considered necessary. The HKMA may also revoke authorisation in the event of an institution's non-compliance with the provisions of the Banking Ordinance or on any other ground specified in the Banking Ordinance.

The Banking Ordinance requires that banks submit to the HKMA certain returns and other information and establishes certain minimum standards and ratios relating to capital adequacy, liquidity, capitalisation, limitations on shareholdings, exposure to any one customer, unsecured advances to persons affiliated with the bank and holdings of interests in land, with which banks must comply.

To facilitate more effective cooperation with other financial supervisory authorities, the Banking Ordinance enables the HKMA to cooperate and assist with other recognised financial supervisory authorities in Hong Kong and abroad. The Banking Ordinance's secrecy provisions permit the exchange of information with such other authorities, and also permit the HKMA to disclose information to the Chief Executive, the Financial Secretary and other financial officials, where the HKMA thinks such disclosure would benefit depositors, potential depositors or the public interest or where the disclosure would aid the other officials in the performance of their duties and is not contrary to the interests of the depositors, potential depositors or the public.

Singapore Regulation and Supervision

Banking in Singapore is regulated by and subject to the provisions of the Singapore Banking Act (Chapter 19) of Singapore (the "Singapore Banking Act") and the subsidiary legislation issued thereunder, which are administered by the MAS. Under the provisions of the Singapore Banking Act, the MAS is empowered to issue notices, directives, circulars, guidelines and recommendations from time to time which would apply to banks in Singapore. The MAS is a statutory and governmental body set up under the Monetary Authority of Singapore Act (Chapter 186) (the "MAS Act"). The Ministry of Finance regulates the financial and monetary environment of Singapore through the MAS. The objectives of the MAS include the promoting of monetary stability and credit and exchange conditions conducive to the growth of the Singapore economy as well as fostering a sound and progressive financial services sector.

The MAS may (under conditions of secrecy) inspect the books, accounts and transactions of any bank in Singapore. It may (again under conditions of secrecy) investigate the affairs of any bank suspected of carrying on business in a manner likely to be detrimental to the interests of depositors and other creditors or having insufficient assets to meet its liabilities to the public or is contravening the provisions of the Singapore Banking Act. Its supervision of banks and other financial institutions in Singapore is carried out through a

system of on-site inspections, review of data and other information to the MAS and analytical reviews of statistical and other information submitted by these institutions. The MAS may appoint an independent auditor to exercise its power of inspection and investigation. The key areas of the MAS's concern are the quality of management, earnings and assets and adequacy of capital and liquidity.

The MAS also relies on approved internal and external auditors to identify weaknesses and areas of non-compliance. Banks are required to submit a copy of their auditors' reports to the MAS after each audit. An external auditor is required under the Singapore Banking Act to immediately report to the MAS if he comes across any serious violations of the Singapore Banking Act, criminal offences involving fraud or dishonesty, losses that reduce the capital funds of the bank by 50% or more, serious irregularities and inadequacy of assets to cover the claims of creditors.

As with the case in Hong Kong, the Singapore Banking Act requires banks to submit to the MAS returns and other information and establishes certain minimum standards and ratios relating to capital adequacy, liquidity, capitalisation, limitations on shareholdings, exposure to any one customer, unsecured advances to persons affiliated with the bank and holdings of interests in land, with which banks must comply.

Furthermore, foreign banks' head offices who have banking operations in Singapore are usually required by the MAS, as a condition of their licence to conduct banking business in Singapore, to give an undertaking to provide financial support to their banking operations in Singapore in times of need.

The MAS also has powers to institute corrective action in certain instances, for instance, where a bank is suspected of carrying on business in a manner likely to be detrimental to the interests of depositors and other creditors or where the MAS deems necessary in the interests of the public. It may appoint a person to advise a bank on the proper conduct of its business or assume control of and carry on the business of the bank and may thereafter petition to the courts for the bank to be wound up. The Singapore Banking Act also contains conditions and procedures for the MAS to revoke a bank's licence.