Group Summary

The Group had a strong year in 2003 with profit before taxation 22 per cent higher than in 2002, at $1,542 million. This growth was broadly based, both geographically and across a wide range of products, reflecting an increasingly balanced portfolio, diversity of earnings and effective risk management. Normalised earnings per share has grown by 20 per cent to 89.6 cents. Refer to note 12 for details of basic and diluted earnings per share.

Net revenue has grown five per cent from $4,539 million in 2002 to $4,753 million in 2003, driven by strong growth in non-funded income in both Consumer Banking and Wholesale Banking.

Net interest income fell by three per cent to $2,968 million, principally as a result of bankruptcy containment actions in Hong Kong, margin pressure on mortgages in Singapore and lower yields on asset and liability management. The net interest margin fell from 3.1 per cent in 2002 to 2.8 per cent in 2003 and interest spread fell from 2.7 per cent to 2.5 per cent. The generally low interest rate environment and, in Hong Kong, a change in product mix was behind this reduction.

Net fees and commissions increased by 17 per cent from $991 million to $1,156 million. Fee based Wealth Management products and lower mortgage subsidies, particularly in Hong Kong and Singapore, contributed significantly to this growth. Fee income in Africa grew by 33 per cent, an excellent performance driven by higher transaction volumes and facility fees.

Revenue from dealing profits and exchange increased 25 per cent from $420 million to $525 million. Over 70 per cent of this revenue is customer driven. Retail foreign exchange performed well and customer driven option and derivative revenue grew by 80 per cent.

Other operating income increased by 60 per cent from $65 million to $104 million, largely from profit on sale of investment securities in the first half as part of a programme to reduce the risk in the book.

Total operating expenses have grown by four per cent to $2,664 million. Maintaining tight control over costs while continuing to invest in the business remains a priority. In 2003, investment was focused on new market entry, product innovation, expanding distribution, improved service platforms and infrastructure. This investment positions the Group to take advantage of future growth opportunities, although in the short term has led to a small increase in the normalised cost-income ratio from 53.6 per cent in 2002 to 53.9 per cent in 2003.

Effective risk management led to a reduction in the debt charge of $176 million, or 25 per cent from $712 million to $536 million. Provision for bankruptcies in Hong Kong fell from $287 million in 2002 to $173 million this year. The corporate portfolio performed exceptionally well and recoveries were strong.

Consumer Banking

Consumer Banking operating profit increased 19 per cent from $623 million in 2002 to $740 million in 2003. Revenue grew by three per cent. Ten per cent revenue growth outside of Hong Kong was offset by a six per cent decline in revenue in Hong Kong.

Costs were held flat in the first half, but were deliberately accelerated in the second half to support growth initiatives. The bad debt charge fell by 21 per cent, largely from an improvement in the Hong Kong bankruptcy situation.

The following table provides an analysis of operating profit by geographic segment for Consumer Banking:

2003

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Consumer Banking Total $million
Net revenue	**955**	**329**	**162**	**333**	**224**	**102**	**138**	**170**	**79**	**2,492**
Costs	**(416)**	**(111)**	**(79)**	**(189)**	**(129)**	**(46)**	**(83)**	**(159)**	**(62)**	**(1,274)**
Charge for debts	**(282)**	**(40)**	**(19)**	**(58)**	**(59)**	**(11)**	**(5)**	**(4)**	**–**	**(478)**
Operating profit	**257**	**178**	**64**	**86**	**36**	**45**	**50**	**7**	**17**	**740**

2002

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Consumer Banking Total $million
Net revenue	1,013	313	156	285	204	92	121	137	95	2,416
Costs	(422)	(106)	(79)	(177)	(114)	(36)	(68)	(124)	(64)	(1,190)
Charge for debts	(434)	(35)	(22)	(58)	(38)	(12)	(4)	(3)	3	(603)
Operating profit	157	172	55	50	52	44	49	10	34	623

In Hong Kong, revenue dropped from $1,013 million to $955 million. This was a direct result of bankruptcy containment actions. Whilst these actions have adversely affected revenue, they have been effective in returning the unsecured lending business to profit in 2003. Revenue attrition has been partially offset by growth in mortgages and wealth management. Costs have been reduced by one per cent. The debt charge at $282 million is down by 35 per cent, reflecting the success of the action taken to contain bankruptcy losses, resulting in a 64 per cent increase in operating profit to $257 million in 2003 from $157 million in 2002.

In Singapore, revenue rose by five per cent to $329 million despite acute margin pressure. Wealth management grew strongly and mortgage revenue increased, largely as a result of increased lending to smaller corporates in Business Financial Services and as a consequence of the low interest rate environment.

In Malaysia, operating profit grew by 16 per cent to $64 million. Revenue increased by four per cent. There was strong growth in mortgages partially offset by lower margins. Costs were held flat and the debt charge declined by 14 per cent as a result of improved risk management and collections in the credit card business.

The Other Asia Pacific region had excellent results, with a 72 per cent increase in operating profit from $50 million to $86 million. Total revenue grew by 17 per cent to $333 million, with cost growth held at seven per cent. In Taiwan, wealth management revenue grew by more than 80 per cent. Indonesia, Philippines and Thailand all showed revenue growth in excess of 20 per cent driven by good asset growth with no increase in the debt charge.

In India, revenue increased by ten per cent from $204 million to $224 million. Mortgage volumes and revenue doubled but there has been a significant decline in margins. Costs have increased by $15 million to $129 million as the distribution network has been expanded with branches in nine new cities. The bad debt charge increased by $21 million to $59 million. This was largely driven by increased provisions on a specific vintage of the card portfolio.

In the UAE, revenue grew by 11 per cent to $102 million and in the rest of MESA it grew by 14 per cent to $138 million. Unsecured loans and wealth management continued to be key business drivers across the region. Internet banking was launched in the first half and there has been good growth in cards, especially in UAE, Pakistan, Bangladesh and Jordan.

Revenue in Africa increased by 24 per cent to $170 million through asset growth of more than 30 per cent. This was achieved despite significant margin compression in Kenya and currency devaluation in Zimbabwe. Costs rose by 28 per cent as alternative distribution channels were established and through expansion into South Africa.

The Americas, UK and Group Head Office has seen a reduction in operating profit from $34 million to $17 million. This is due to the restructuring of the Offshore Banking Business based in Jersey. Revenue has decreased by $16 million as the business was reconfigured and refocused. Five international booking centres are now in operation and the business is well positioned for future growth.

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

Revenue by product	**2003** $million	2002 $million
Cards and Personal Loans	**1,045**	1,082
Wealth Management/Deposits	**806**	815
Mortgages and Auto Finance	**604**	492
Other	**37**	27
	2,492	2,416

Cards and personal loans have grown steadily and performed well outside Hong Kong. Assets grew by 12 per cent in 2003, mainly in Thailand, Malaysia and the Philippines. Regulatory intervention and interest caps limited margin growth in some markets. The bankruptcy situation and SARS affected performance in Hong Kong. However, although revenue was down by 20 per cent, the business returned to profitability and growth in the second half of 2003.

Wealth management revenue has fallen marginally from $815 million to $806 million. Strong sales of investment service products have been offset by margin pressure on liability products.

Mortgages and auto finance revenue has grown by 23 per cent from $492 million to $604 million. This was driven by new product successes, increased fee income and lower cost of funds.

Costs in Consumer Banking have increased from $1,190 million to $1,274 million as a result of accelerated investment in the second half of 2003 to drive future growth. The Manhattan card was successfully launched in Singapore in the second half of 2003 and distribution channels have been expanded in a number of countries and regions, including Hong Kong, Singapore, India and Africa. Service and product platforms continue to be improved. The cost-income ratio for 2003 was 51 per cent compared with 49 per cent for 2002.

The net charge for bad debts in Consumer Banking has fallen by 21 per cent to $478 million in 2003, mainly due to the $115 million fall in Hong Kong bankcruptcy charges.

Wholesale Banking

Wholesale Banking has performed well in 2003. The repositioning of the business in 2002 towards higher returns has delivered improved profitability. Revenue has increased by seven per cent to $2,261 million in 2003 with growth across a range of products and countries. Costs have been tightly controlled with an increase of four per cent from $1,211 million to $1,256 million resulting in a positive cost-income 'jaws' of three per cent for the year. Risk management has been effective and the debt charge reduced from $109 million in 2002 to $58 million in 2003 with strong recoveries.

The following table provides an analysis of operating profit by geographic segment for Wholesale Banking:

2003

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Wholesale Banking Total $million
Net revenue	403	159	74	349	244	132	177	273	450	2,261
Costs	(210)	(101)	(57)	(241)	(89)	(45)	(61)	(124)	(328)	(1,256)
Charge for debts	(23)	7	21	(41)	(1)	9	9	(5)	(34)	(58)
Amounts written off fixed asset investments	–	–	–	–	(4)	–	–	–	(7)	(11)
Operating profit	170	65	38	67	150	96	125	144	81	936

2002

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Wholesale Banking Total $million
Net revenue	403	172	78	287	190	135	153	195	510	2,123
Costs	(200)	(103)	(64)	(229)	(76)	(41)	(51)	(104)	(343)	(1,211)
Charge for debts	6	(6)	9	(3)	–	4	(1)	–	(118)	(109)
Amounts written off fixed asset investments	–	–	–	–	–	–	–	–	(8)	(8)
Operating profit	209	63	23	55	114	98	101	91	41	795

In Hong Kong, revenue was flat. A decline in asset and liability management was offset by over ten per cent growth in customer driven revenue. Market share increased in trade, cash management, custody and fixed deposits. Costs were five per cent higher mainly relating to increased amortisation of product and infrastructure investment. The debt charge increased by $29 million. This was due to the first half of 2002 benefiting from high recoveries.

Revenue in Singapore fell by $13 million to $159 million as a result of lower asset and liability management revenue and lower margins on cash management. However, operating profit increased three per cent through cost control and debt recoveries.

In Malaysia, revenue were down by five per cent, mainly in Global Markets. This has been offset by lower costs and, with improved debt recoveries, operating profit has increased from $23 million to $38 million.

In the Other Asia Pacific region, revenue grew by 22 per cent or $62 million in 2003 to $349 million. Thailand, Taiwan, Korea and Indonesia all showed strong revenue growth, reflecting the benefit of the restructuring that took place in 2002, together with an improved performance in Global Markets. Although costs increased by five per cent and the debt charge reflected higher new provisions and lower recoveries, operating profit increased by 22 per cent.

India revenue increased by 28 per cent to $244 million. More than half this growth was customer driven growth in trade and lending, custody and Global Markets. Revenue also benefited from reducing the risk in the investment portfolio. Costs increased by 17 per cent with a normalised cost-income ratio of 45 per cent in 2003 compared to 44 per cent in 2002. With tight risk management operating profits grew from $114 million in 2002 to $150 million in 2003, an increase of 32 per cent.

Revenue in the UAE fell marginally to $132 million. Good growth in customer revenue was more than offset by a decline in revenue from asset and liability management and lower margins in cash management. Elsewhere in MESA revenue grew by 16 per cent in 2003 to $177 million. This was spread across all markets with good performance in Bahrain, Pakistan and Bangladesh. Costs in the region grew by 20 per cent to $61 million to support a wider product offering and development of new markets in Iraq and Afghanistan. The operating profit for the Other MESA region has increased by 24 per cent from $101 million to $125 million.

Africa performed extremely well in 2003 with revenue growth of 40 per cent, $78 million, to $273 million. There was growth across the region driven by cash management, lending and an excellent foreign exchange and asset and liability management performance. Costs grew by 19 per cent to $124 million, partly through inflationary pressure but also reflecting increased investment in Nigeria and new product offerings. Operating profit grew from $91 million to $144 million, an increase of 58 per cent.

In the Americas, UK and Group Head Office operating profit nearly doubled. This reflects the restructuring of Latin America that took place in 2002. Although revenue fell by $60 million, this was more than offset by a $15 million reduction in costs and an $84 million reduction in the debt charge.

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

Revenue by product	2003 $million	2002 $million
Trade and Lending	**819**	775
Global Markets	**1,059**	973
Cash Management	**318**	315
Custody	**65**	60
	2,261	2,123

Trade and lending revenue grew six per cent to $819 million in 2003. Trade finance grew well, underpinned by the integrated trade platform B2BeX. Loan demand in Asia has remained low in 2003, but revenue and asset growth has come from India, MESA and Africa.

Revenue in Global Markets increased by $86 million, or nine per cent, to $1,059 million. This performance reflects customer led growth in derivatives, fixed income and structured products. Revenue from asset and liability management fell due to low interest rates and the flat dollar yield curve. This, however, was partially offset by gains on investment securities.

Cash Management revenue has held steady despite significant reduction in cash margins due to a 24 per cent growth in liability balances. Revenue growth was reported in MESA, Africa, UK and Americas and was driven, in particular, by multi-national corporations.

Custody revenue increased by $5 million to $65 million with an improved performance in the second half of 2003 as Asian stock markets strengthened and business volumes increased.

Costs in Wholesale Banking have risen by four per cent to $1,256 million in 2003 due mainly to increased investment in new product capabilities in trade, cash, fixed income and corporate finance.

The Wholesale Banking debt charge has fallen $51 million or 47 per cent to $58 million. This reflects the continued effectiveness of risk management strategies undertaken since 2001 to reduce the risk in the Wholesale Banking portfolio, together with strong recoveries.

Risk

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

Ultimate responsibility for the effective management of risk rests with the Company's Board of Directors who control and manage risk through the Audit and Risk Committee.The Audit and Risk Committee reviews specific risk areas, guides and monitors the activities of the Group Asset and Liability Committee and the Group Risk Committee.

All of the directors of Standard Chartered PLC are members of the Group Risk Committee that is chaired by the Group Executive Director for Risk (GED Risk). This Committee has responsibility for determining the Group Risk appetite and strategy, monitoring and controlling Group risk exposure, setting Group standards and policies for risk measurement and management, and also delegating authorities and responsibilities to various sub-committees.

The GED Risk manages an independent risk function which:

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

Individual Group executive directors are accountable for risk management in their businesses and support functions and for countries where they have governance responsibilities. This includes:

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

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

Credit Risk

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

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

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

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

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

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

Loan Portfolio

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

				2003				2002
	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	**2,072**	**4,333**	**14,320**	**20,725**	1,977	4,399	14,012	20,388
Other	**4,963**	**3,551**	**1,903**	**10,417**	4,798	3,197	1,218	9,213
Total	**7,035**	**7,884**	**16,223**	**31,142**	6,775	7,596	15,230	29,601
Wholesale Banking	**22,561**	**4,545**	**1,921**	**29,027**	22,035	4,077	1,764	27,876
General Provisions				**(425)**				(468)
Net loans and advances to customers	**29,596**	**12,429**	**18,144**	**59,744**	28,810	11,673	16,994	57,009

The Group's loans and advances to customers are predominantly short term with approximately half the portfolio having a maturity of one year or less. The longer term portfolio, with a maturity of over five years, mainly relates to Consumer Banking personal residential mortgages and term lending products.

The following tables set out an analysis of the Group's net loans and advances as at 31 December 2003 and 31 December 2002 by the principal category of borrowers, business or industry and/or geographical distribution:

2003

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Loans to individuals										
Mortgages	12,536	4,029	2,246	831	640	–	67	30	346	20,725
Other	2,234	2,018	660	1,990	1,125	677	1,127	430	156	10,417
Consumer Banking	14,770	6,047	2,906	2,821	1,765	677	1,194	460	502	31,142
Agriculture, forestry and fishing	6	3	77	49	12	–	24	144	387	702
Construction	104	15	38	43	34	83	91	19	13	440
Commerce	1,350	1,001	190	717	30	619	394	398	725	5,424
Electricity, gas and water	327	36	32	240	56	3	69	127	84	974
Financing, insurance and business services	1,575	887	432	657	194	434	320	116	1,184	5,799
Loans to governments	–	61	748	8	–	–	13	–	281	1,111
Mining and quarrying	–	15	86	35	–	59	59	16	470	740
Manufacturing	1,326	780	214	2,016	943	179	916	283	1,738	8,395
Commercial real estate	873	716	7	250	–	–	1	18	3	1,868
Transport, storage and communication	491	150	222	118	71	30	237	114	1,513	2,946
Other	23	70	57	170	1	26	166	44	71	628
Wholesale Banking	6,075	3,734	2,103	4,303	1,341	1,433	2,290	1,279	6,469	29,027
General provisions									(425)	(425)
Total loans and advances to customers	20,845	9,781	5,009	7,124	3,106	2,110	3,484	1,739	6,546	59,744
Total loans and advances to banks	2,113	1,045	204	2,784	239	605	889	308	5,167	13,354

Under 'Loans to individuals – Other', $1,371 million (31 December 2002: $1,487 million) relates to the cards portfolio in Hong Kong. The total cards portfolio is $3,329 million (31 December 2002: $3,359 million).

Approximately 52 per cent (31 December 2002: 52 per cent) of total loans and advances to customers relates to the Consumer Banking portfolio, predominantly personal residential mortgages. The Wholesale Banking portfolio is well diversified across both geography and industry. The Group does not have any significant concentrations in special interest industries such as Aviation, Telecoms and Tourism. Exposure to each of these industries is less than five per cent of Wholesale Banking Loans and Advances to Customers.

2002

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Loans to individuals										
Mortgages	13,045	3,813	2,031	779	283	–	20	35	382	20,388
Other	2,573	1,524	575	1,684	882	559	978	231	207	9,213
Consumer Banking	15,618	5,337	2,606	2,463	1,165	559	998	266	589	29,601
Agriculture, forestry and fishing	5	7	59	35	15	–	14	62	365	562
Construction	58	38	37	18	4	69	88	25	7	344
Commerce	1,251	777	147	572	19	500	284	283	1,151	4,984
Electricity, gas and water	269	40	12	178	23	4	46	35	109	716
Financing, insurance and business services	1,645	586	404	489	209	256	382	47	1,921	5,939
Loans to governments	–	41	552	66	–	–	13	–	273	945
Mining and quarrying	–	19	51	26	23	5	129	20	536	809
Manufacturing	1,019	399	201	2,020	887	308	934	299	2,256	8,323
Commercial real estate	1,012	665	18	112	–	–	–	6	6	1,819
Transport, storage and communication	405	112	77	217	113	29	149	107	1,577	2,786
Other	31	39	37	194	–	7	109	18	214	649
Wholesale Banking	5,695	2,723	1,595	3,927	1,293	1,178	2,148	902	8,415	27,876
General provisions									(468)	(468)
Total loans and advances to customers	21,313	8,060	4,201	6,390	2,458	1,737	3,146	1,168	8,536	57,009
Total loans and advances to banks	2,507	2,027	394	2,703	212	1,062	730	218	6,148	16,001

Problem Credits

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

In Wholesale Banking, accounts are placed on Early Alert when they display signs of weakness. Such accounts are subject to a dedicated process involving senior risk officers and representatives from a specialist recovery unit, which is independent of the business units. Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of the specialist recovery unit.

In Consumer Banking, an account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days (60 days for mortgages) are considered delinquent. These are closely monitored and subject to a special collections process.

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

Consumer Banking

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

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

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

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

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

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

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

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

2003

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

2002

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Loans and advances – Gross non-performing	118	111	176	68	41	7	20	15	18	574
Specific provisions for bad and doubtful debts	(45)	(18)	(24)	(16)	(8)	(3)	(4)	(8)	(1)	(127)
Interest in suspense	(1)	(3)	(22)	(10)	(7)	(2)	(5)	(7)	(1)	(58)
Net non-performing loans and advances	72	90	130	42	26	2	11	–	16	389
Cover ratio										32%

The relatively low Consumer Banking cover ratio reflects the fact that Standard Chartered classifies all exposure which is more than 90 days past due as non-performing, whilst provisions on unsecured lending are only raised at the time of charge-off. For secured products, provisions reflect the difference between the underlying assets and the outstanding loan (see details relating to the raising of provisions above).

Wholesale Banking

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

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

Where the principal, or a portion thereof, is considered uncollectable and of such little realisable value that it can no longer be included at its full nominal amount on the balance sheet, a specific provision is raised. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience and the results of independent asset reviews.

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

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

2003

	Asia Pacific					MESA				
	Hong Kong $million	**Singapore $million**	**Malaysia $million**	**Other Asia Pacific $million**	**India $million**	**UAE $million**	**Other Middle East & Other South Asia $million**	**Africa $million**	**Americas, UK & Group Head Office $million**	**Total $million**
Loans and advances – Gross non-performing	**357**	**236**	**194**	**1,077**	**86**	**52**	**180**	**116**	**887**	**3,185**
Specific provisions for bad and doubtful debts	**(220)**	**(106)**	**(118)**	**(375)**	**(44)**	**(40)**	**(99)**	**(51)**	**(460)**	**(1,513)**
Interest in suspense	**(91)**	**(64)**	**(55)**	**(68)**	**(30)**	**(12)**	**(66)**	**(43)**	**(126)**	**(555)**
Net non-performing loans and advances	**46**	**66**	**21**	**634**	**12**	**–**	**15**	**22**	**301**	**1,117**

2002*

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Loans and advances – Gross non-performing	400	273	353	1,166	84	142	242	103	920	3,683
Specific provisions for bad and doubtful debts	(210)	(141)	(211)	(342)	(52)	(105)	(140)	(45)	(451)	(1,697)
Interest in suspense	(111)	(73)	(84)	(102)	(31)	(29)	(68)	(44)	(121)	(663)
Net non-performing loans and advances	79	59	58	722	1	8	34	14	348	1,323

* Prior period has been restated (see accounting policy note on page 69). Corporate loans and advances to customers against which provisions have been outstanding for two years or more are no longer written down.

Wholesale Banking Cover Ratio

The following tables show the cover ratio. The non-performing loans recorded below under Standard Chartered Nakornthon Bank (SCNB) are excluded from the cover ratio calculation as they are the subject of a Loan Management Agreement (LMA) with a Thai Government Agency. Refer to note 19 on page 83.

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

	Total $million	SCNB (LMA) $million	2002* Total excl LMA $million
Loans and advances – Gross non-performing	3,683	781	2,902
Specific provisions for bad and doubtful debts	(1,697)	(91)	(1,606)
Interest in suspense	(663)	–	(663)
Net non-performing loans and advances	1,323	690	633
Cover ratio			78%

* Prior period has been restated (see accounting policy note on page 69). Corporate loans and advances to customers against which provisions have been outstanding for two years or more are no longer written down.

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

Group

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

2003

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

2002*

	Asia Pacific					MESA				
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	UAE $million	Other Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Provisions held at 1 January 2002	335	151	240	428	85	145	188	63	424	2,059
Exchange translation differences	2	6	–	6	–	–	(1)	(4)	6	15
Amounts written off	(524)	(44)	(28)	(144)	(75)	(45)	(46)	(9)	(91)	(1,006)
Recoveries of amounts previously written off	14	5	10	13	13	–	1	–	9	65
Other	–	–	–	(6)	–	–	3	–	(11)	(14)
New provisions	502	59	45	115	104	17	23	9	138	1,012
Recoveries/provisions no longer required	(74)	(18)	(32)	(54)	(67)	(9)	(24)	(6)	(23)	(307)
Net charge against/(credit to) profit	428	41	13	61	37	8	(1)	3	115	705
Provisions held at 31 December 2002	255	159	235	358	60	108	144	53	452	1,824

* Prior period has been restated (see accounting policy note on page 69). Corporate loans and advances to customers against which provisions have been outstanding for two years or more are no longer written down.

General Provision

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

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

In the first half of 2003 the Group released $10 million from its General Provision. During the second half of 2003 a charge of $33 million was made to the General Provision relating to litigation in India dating back to 1992.

Country Risk

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

This covers the risk that:

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

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

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

The following table based on the Bank of England Cross Border Reporting (C1) guidelines, shows the Group's cross border assets including acceptances, where they exceed one per cent of the Group's total assets.

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

	2003				2002			
	Public sector $million	**Banks $million**	**Other $million**	**Total $million**	Public sector $million	Banks $million	Other $million	Total $million
USA	**1,436**	**902**	**2,149**	**4,487**	1,084	1,729	2,462	5,275
Hong Kong	**14**	**112**	**2,301**	**2,427**	16	181	1,842	2,039
Netherlands**	**–**	**1,729**	**275**	**2,004**	–	–	–	–
Korea	**3**	**1,393**	**475**	**1,871**	12	1,334	407	1,753
France	**4**	**1,529**	**253**	**1,786**	4	1,202	323	1,529
India**	**60**	**641**	**1,052**	**1,753**	–	–	–	–
Singapore	**–**	**160**	**1,509**	**1,669**	1	190	1,361	1,552
Germany	**–**	**1,292**	**315**	**1,607**	–	2,363	234	2,597
Italy*	**–**	**–**	**–**	**–**	488	613	374	1,475
Australia*	**–**	**–**	**–**	**–**	359	988	59	1,406

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

** Less than one per cent of total assets at 31 December 2002.

Market Risk

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

Market risk is supervised by the Group Risk Committee, which agrees policies and levels of risk appetite in terms of Value at Risk (VaR). A Group Market Risk Committee sits as a specialist body to provide business level management, guidance and policy setting. Policies cover the trading book of the Group and also market risks within the non-trading books. Limits by location and portfolio are proposed by the business within the terms of agreed policy. Group Market Risk Committee agrees the limits and monitors exposures against these limits.

Group Market Risk Committee augments the VaR measurement by regularly stress testing aggregate market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible. In addition, VaR models are back tested against actual results to ensure pre-determined levels of accuracy are maintained.

Additional limits are placed on specific instrument and currency concentrations where appropriate. Factor sensitivity measures are used in addition to VaR as additional risk management tools. Option risks are controlled through revaluation limits on currency and volatility shifts, limits on volatility risk by currency pair and other underlying variables that determine the options' value.

Value at Risk

The Group measures the potential impact of changes in market prices and rates using Value at Risk (VaR) models.

In 2002 the Group used a combination of variance-covariance methodology and historical simulation to measure VaR on all market risk related activities. From January 2003, the Group phased out variance-covariance methodology in preference of historical simulation and VaR at 31 December 2003 is measured using historical simulation on all market risk related activities.

The total VaR for trading and non-trading books combined at 31 December 2003 was $12.2 million. Interest rate related VaR was $12.2 million and foreign exchange related VaR was $1.3 million. The corresponding figures at 31 December 2002 were $11.3 million and $1.1 million respectively. The total VaR of $12.2 million recognises offsets between interest rate and foreign exchange risks. Additional information is given in note 50 on page 109.

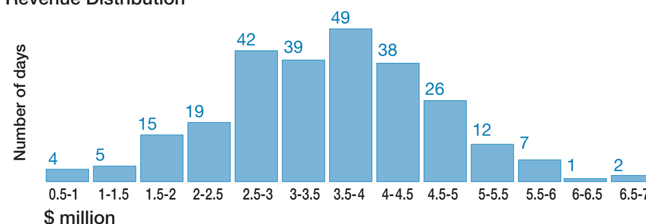
The average total VaR for trading and non-trading books during the year was $13.6 million (2002: $15.2 million) with a maximum exposure of $16.0 million. The average VaR was lower in 2003 than the prior year due to the historical simulation diversification effects between interest rate and foreign exchange risks.

The total VaR for market risk in the Group's trading book was $3.2 million at 31 December 2003, compared to $2.7 million a year earlier. Interest rate related VaR was $2.9 million and foreign exchange related VaR was $1.3 million. The corresponding figures at 31 December 2002 were $1.6 million and $1.1 million respectively. The total Var of $3.2 million recognises offsets between interest rate and foreign exchange risks.

VaR for interest rate risk in the non-trading books of the Group totalled $9.5 million at 31 December 2003, compared to $10.6 million a year earlier.

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

The average daily revenue earned from market risk related activities was $3.5 million, compared with $3.4 million during 2002.



Foreign Exchange Exposure

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

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

Interest Rate Exposure

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

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

The average daily revenue from interest rate trading businesses, during 2003, was $2.2 million.

Derivatives

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

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

The Group enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates. Only offices with sufficient product expertise and appropriate control systems are authorised to undertake transactions in derivative products.

The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark-to-market value is positive, together with an estimate for the potential change in the future value of the contract, reflecting the volatilities that affect it. The credit risk on contracts with a negative mark-to-market value is restricted to the potential future change in their market value. The credit risk on derivatives is therefore usually small relative to their notional principal values. For an analysis of derivative contracts see notes 45 and 46 on pages 105 to 106.

The Group applies a potential future exposure methodology to manage counterparty credit exposure associated with derivative transactions. Please refer to note 50 on page 109 for further information on Market Risk.

Liquidity Risk

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

Liquidity risk is managed through the Group Asset and Liability Committee (GALCO). This Committee, chaired by the GED Finance and with authority derived from the Board, is responsible for both statutory and prudential liquidity. These are managed through the provision of policies and procedures that are co-ordinated by the liquidity management committee and regional and local asset and liability committees.

A range of tools are used for the management of liquidity. These comprise commitment and wholesale borrowing guidelines, key balance sheet ratios and medium-term funding requirements.

A substantial portion of the Group's assets are funded by customer deposits made up of current and savings accounts and other short-term deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency and, if other currencies are used, the foreign exchange risk is usually hedged.

The GALCO also manages the structural foreign exchange and interest rate exposures that arise within the Group. Polices and terms of reference are set within which Group Corporate Treasury manage these exposures on a day-to-day basis.

Policies and guidelines for the setting and maintenance of capital ratio levels also originate from the GALCO. Responsibilities are delegated through the regional and local asset and liability committees to the relevant businesses. Ratios are monitored centrally by Group Corporate Treasury.

Operational and Other Risks

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

An independent Group Operational risk function is responsible for establishing and maintaining the overall Operational Risk framework. They are supported by Wholesale Banking and Consumer Banking Operational Risk units. The Group Operational Risk function provides reports to the Group Risk Committee.

Compliance with Operational risk policy 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, including social, ethical and environmental risk. Significant issues and exceptions must be reported to the CORG. Where appropriate, issues must also be reported to Business Risk Committees. Other risks recognised by the Group include Business, Regulatory, Legal and Reputational risks.

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

Regulatory Risk
Regulatory risk includes the risk of non-compliance with regulatory requirements in a country in which the Group operates. The Group Legal and Compliance 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 includes the risk of unexpected loss from transactions not being enforceable under applicable law or regulation or from inadequate or unsound contractual documentation. The Group manages legal risk through effective use of its internal and external legal advisers and by seeking to ensure that transactions are properly authorised and documented.

Reputational Risk
Reputational risk is defined as the risk that any action taken by the Group or its employees creates a negative perception in the external market place. This includes the Group's and/or its customers' impact on the environment. The Group Risk Committee examines issues that are considered to have reputational repercussions for the Group and issues guidelines or policies as appropriate. It also delegates responsibilities for the management of legal/regulatory and reputational risk to the business through business risk committees.

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

Hedging Policies
Standard Chartered does not generally hedge the value of its foreign currency denominated investments in subsidiaries and branches. Hedges may be taken where there is a risk of a significant exchange rate movement but, in general, the management believes that the Group's reserves are sufficient to absorb any foreseeable adverse currency depreciation.

Standard Chartered also seeks to match closely its foreign currency-denominated assets with corresponding liabilities in the same currencies. The effect of exchange rate movements on the capital risk asset ratio is mitigated by the fact that both the value of these investments and the risk weighted value of assets and contingent liabilities follow substantially the same exchange rate movements.

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

The Group identified improving the efficiency of capital management as a strategic priority in 2002. A capital plan to achieve this has been developed. This includes several key elements; in particular, to reduce the amount of Tier 2 capital and to improve the overall capital mix within the broad target ratios. Consistent with this strategy the Company has made repurchases from various classes of preference shares during 2003 amounting to a capital reduction of $20 million (2002: $741 million).

	2003 $million	2002* $million
Tier 1 capital:		
Shareholders' funds	**7,715**	7,270
Minority interests – equity	**83**	75
Innovative Tier 1 securities	**1,155**	997
Less: restriction on innovative Tier 1 securities	**(127)**	(70)
Unconsolidated associated companies	**13**	31
Less: premises revaluation reserves	**–**	(3)
goodwill capitalised	**(1,986)**	(2,118)
Total Tier 1 capital	**6,853**	6,182
Tier 2 capital:		
Premises revaluation reserves	**–**	3
Qualifying general provisions	**387**	468
Undated subordinated loan capital	**1,568**	1,542
Dated subordinated loan capital	**3,244**	2,916
Restricted innovative Tier 1 securities	**127**	70
Total Tier 2 capital	**5,326**	4,999
Investments in other banks	**(742)**	(558)
Other deductions	**(4)**	(4)
Total capital	**11,433**	10,619
Risk weighted assets	**58,371**	55,931
Risk weighted contingents	**19,791**	18,623
Total risk weighted assets and contingents	**78,162**	74,554
Capital ratios:		
Tier 1 capital	**8.8%**	8.3%
Total capital	**14.6%**	14.2%

	2003 $million	2002* $million
Shareholders' funds		
Equity	**7,066**	6,638
Non Equity	**649**	632
	7,715	7,270
Post tax return on equity (normalised)	**15.3%**	13.4%

* Comparative restated (see note 52 on page 111).

International Financial Reporting Standards

All companies listed in the European Union will be required to report their consolidated financial statements under International Financial Reporting Standards (IFRS) from 1 January 2005. The first public reporting date of the Company will be as at and for the six months ended 30 June 2005, with 2004 comparatives.

An IFRS Transition Programme involving all businesses and locations Group-wide has been underway since 2002, and is supervised by a Project Steering Committee chaired by a Group Executive Director.

The transition to IFRS represents a significant change in the accounting framework underlying the Group's Annual Report, particularly in respect of IAS 39 'Financial Instruments: recognition and measurement'. The International Accounting Standards Board (IASB) has substantially completed its review of International Accounting Standards that will be effective for the 2005 reporting period. Significantly, IAS 39 has not as yet been adopted by the European Commission.

In view of the ongoing changes, the Group continues to evaluate and prepare for the implementation of IFRS.