Corporate Governance

The Board of Standard Chartered PLC is responsible for ensuring proper standards of corporate governance are maintained and for accounting to shareholders.

This report has been prepared in accordance with the Principles of Good Governance and Code of Best Practice in the Combined Code on Corporate Governance issued by the Financial Services Authority (the 'Combined Code'). It explains how the Company has applied these principles throughout the financial year. The directors are also required to confirm that the Company has complied with the provisions of Appendix 14 (Code of Best Practice) of the Listing Rules of the Hong Kong Stock Exchange. The directors confirm that, throughout the financial year, the Company has complied with the provisions of the Combined Code and Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange except that the non-executive directors of the Company were not appointed for specific terms. A review of the non-executive directors' appointments was carried out and they are now for specific terms. In addition, a review of the executive directors' notice periods following a change of control was carried out and these notice periods were reduced to one year.

Directors

The full Board meets regularly, at least eight times a year, and has a formal schedule of matters reserved for it. Two meetings a year are usually held in countries where the Group operates outside the United Kingdom. The directors use these overseas visits to meet staff, corporate customers and government officials.

The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues.

An external independent review of Board effectiveness was carried out during 2003.

The directors have a range of skills and experience and each brings an independent judgement and considerable knowledge to the Board's discussions. On appointment, each director receives information about the Group and is advised of the legal, regulatory and other obligations of a director of a listed company. Directors may take independent professional advice at the Company's expense, in appropriate circumstances. All of the directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The removal of the Company Secretary would be a matter for the whole Board.

The roles of Chairman and Group Chief Executive are separate. The Board is made up of seven executive directors and nine non-executive directors. Lord Stewartby is the senior non-executive director and the Deputy Chairman of the Board. The Board considers that all of the non-executive directors, with the exception of Mr D G Moir, are independent. Mr Moir served as an executive director of the Company from January 1993 until March 2000.

All directors are subject to reappointment at least every three years.

The Board has appointed two committees of non-executive directors with specific delegated authorities: the Remuneration Committee and the Audit and Risk Committee. The Remuneration Committee also acts as the Board's Nomination Committee to consider the appointment of new directors, before seeking the final approval of the whole Board. The Board is considering setting up a separate Nomination Committee.

An external independent review of the committee structure is being carried out.

Directors' Remuneration

The Remuneration Committee determines the pay and benefits of the executive directors, including the Chairman. It consists exclusively of non-executive directors. The remuneration of all directors is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate.

A statement of the Company's remuneration policy for directors is included in the directors' remuneration report on pages 49 to 60.

Accountability and Audit

The Audit and Risk Committee is chaired by Lord Stewartby with four other non-executive directors as members. The Committee receives reports on the findings of internal and external audits and on action taken in response to these. It meets with the Group's auditors when appropriate and reviews the scope, findings and cost effectiveness of the audit and the independence and objectivity of the external auditors. It also considers changes to the Group's accounting policies and examines the annual and interim financial statements before the Board approves them. Ultimate responsibility for the approval of the annual and interim financial statements rests with the Board. In addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Group's system of internal control and risk management processes.

Going Concern

The Board confirms that it is satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason it continues to adopt the going concern basis when preparing the financial statements.

Internal Control

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events.To achieve this, the Board has established a process for the identification, evaluation and management of the risks faced by the Group which operated through the year ended 31 December 2003 and to 18 February 2004, the date the Board approved this annual report and accounts. It should be recognised that such a process can only provide reasonable, not absolute, assurance against material misstatement or loss. This process is reviewed regularly by the Board and meets the requirements of the guidance entitled 'Internal Control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in 1999. The system of internal control of the Group is also subject to regulatory oversight in the United Kingdom and overseas.

The Financial Review on pages 24 to 39 describes the Group's risk management structure. The Group's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive Risk Committees regularly review the Group's risk profile.

The performance of the Group's businesses is reported regularly to senior line management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts, and the valuation of assets and positions.

The effectiveness of the Group's internal control system is reviewed regularly by the Board, its Committees, Group management, and Group Audit. Group Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group. The work of Group Audit is focused on the areas of greatest risk as determined by a risk assessment approach. Group Audit reports regularly to the Audit and Risk Committee, the Chairman, and to the Group Chief Executive. The findings of all adverse audits are reported to the Group Chief Executive and immediate corrective action is required.

The Audit and Risk Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2003 and reported to the Board. The review was supported by an annual business self-certification process which was managed by Group Audit. The Committee has also reviewed the recommendations for provisions against bad or doubtful loans and other credit exposures.

Group Code of Conduct

The Board has approved a Group Code of Conduct relating to the lawful and ethical conduct of business. These requirements are linked to the Group's five core values. The Group Code of Conduct has been communicated to all employees. All employees are expected to observe high standards of integrity and fair dealing in relation to customers, staff, and regulators in the communities in which the Group operates.

Relations with Shareholders

The Board recognises the importance of good communications with all shareholders. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. The annual general meeting is used as an opportunity to communicate with all shareholders.

The United Kingdom Combined Code and the Hong Kong Listing Rules require companies to post the notice of the annual general meeting to shareholders at least 20 working days before the date of the meeting. The Company aims to achieve this and will always give shareholders the 21days' notice required by the United Kingdom Companies Act. Separate resolutions are proposed for each substantially separate issue. The Company displays the proxy voting results on each resolution at the annual general meeting.

New Combined Code

The Board notes the revised Combined Code on Corporate Governance, which was published by the Financial Reporting Council in July 2003 (the 'New Code'), and acknowledges that it applies to the Company from 1 January 2004.

The Board supports the principles and provisions of the New Code which covers Board effectiveness and evaluation, Board balance and independence, succession planning, the procedure for the appointment, induction and ongoing training of directors, and directors' remuneration and service contracts.

The Board is pleased to report that the Company already complies with the majority of the provisions of the New Code and intends to report fully on the Company's compliance with the New Code during 2004, in the 2004 Annual Report.

Social, Ethical and Environmental Responsibilities

Standard Chartered complies with the guidelines issued by the Association of British Insurers on socially responsible investment and reporting on social, ethical and environmental (SEE) matters and is committed to the communities and environments in which it operates. The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. Standard Chartered has established and maintains policies and procedures in relation to social, ethical and environmental related risks. Details of these policies can be found on the Company's website: www.standardchartered.com/ourbeliefs. Through the Group's risk management structure and control framework, the Board receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters. Formal training arrangements are in place for key SEE issues, including arrangements for directors.

Designated policy owners monitor risks in their area. They also work with line management to assist them in designing procedures to ensure compliance with these requirements. In every country the Country Management Committee (Manco) supported by the Country Operational Risk Group (CORG), is responsible for ensuring there are risk management frameworks in place to monitor, manage and report SEE risk. The Country Chief Executives chair both the Manco and CORG.

Compliance with these policies and procedures is the responsibility of all managers. In assessing, incentivising and rewarding performance, new guidance to managers was published during 2002. This explicitly states that account should be taken of adherence to all relevant Group policies, including those associated with SEE risk. Significant exceptions and emerging risks are escalated to senior management through clearly documented internal reporting procedures such as Manco. Group Audit monitors compliance with policies and standards and effectiveness of the Group's internal control structures through its programme of business audits and annual 'Turnbull Review'.

Key areas of risk are those associated with customers' social issues and any impact they may have on the natural environment. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on the Group's business. These risks have always been implicitly recognised in reaching lending decisions but are now explicitly identified in the Group's lending policy. During 2003, the Group adopted the Equator Principles that set procedures, based on the International Finance Corporation guidelines, for recognising the environmental and social impacts and risks associated with project finance.

The Group continues to review and where appropriate, strengthen its money laundering prevention policies, procedures and training.

The Board is not aware of any material exceptions to its policies.