

Notes to the Accounts

1. Interest Receivable

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Balances at central banks | 3 | 3 |
| Treasury bills and other eligible bills | 222 | 256 |
| Loans and advances to banks | 373 | 675 |
| Loans and advances to customers | 3,341 | 3,536 |
| Profit on close out of interest rate swaps to hedge preference share dividends | – | 57 |
| Listed debt securities | 417 | 447 |
| Unlisted debt securities | 434 | 314 |
| | 4,790 | 5,288 |

2. Interest Payable

| | 2003 \$million | 2002 \$million |
|------------------------------------|-------------------|-------------------|
| Deposits by banks | 390 | 396 |
| Customer accounts: | | |
| Current and demand accounts | 105 | 164 |
| Savings deposits | 68 | 106 |
| Time deposits | 832 | 1,131 |
| Debt securities in issue | 133 | 125 |
| Subordinated loan capital: | | |
| Wholly repayable within five years | 37 | 14 |
| Other | 257 | 289 |
| | 1,822 | 2,225 |

3. Dealing Profits

| | 2003 \$million | 2002 \$million |
|---|-------------------|-------------------|
| Income from foreign exchange dealing | 396 | 319 |
| Profits less losses on dealing securities | 12 | 65 |
| Other dealing profits | 117 | 36 |
| | 525 | 420 |

4. Other Operating Income

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Other operating income includes: | | |
| Profits less losses on disposal of investment securities | 62 | 18 |
| Dividend income | 14 | 5 |

5. Administrative Expenses

| | 2003 \$million | 2002 \$million |
|--------------------------------------|-------------------|-------------------|
| Staff costs: | | |
| Wages and salaries | 990 | 951 |
| Social security costs | 25 | 26 |
| Other pension costs (note 6) | 114 | 73 |
| Other staff costs | 224 | 220 |
| | 1,353 | 1,270 |
| Premises and equipment expenses: | | |
| Rental of premises | 150 | 142 |
| Other premises and equipment costs | 125 | 111 |
| Rental of computers and equipment | 15 | 16 |
| | 290 | 269 |
| Other expenses (see below) | 640 | 673 |
| Total administrative expenses | 2,283 | 2,212 |

Other expenses include \$5.5 million (2002: \$5.2 million) in respect of auditors' remuneration for the Group of which \$0.4 million (2002: \$0.4 million) relates to the Company. The auditors of the Company, KPMG Audit Plc and their associated firms, also received \$4.2 million (2002: \$9.3 million) in respect of non-audit services provided to the Group's UK subsidiaries. Details of non audit services are reflected below.

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Non audit fees paid to KPMG Audit Plc and its associated firms: | | |
| Review of half year results (2002 full audit in connection with capital raising) | 0.5 | 3.4 |
| Regulatory reviews | 1.4 | 2.3 |
| Capital raising activities | – | 0.8 |
| Assistance with business acquisitions and disposals | 0.1 | 0.5 |
| Tax advisory | 0.9 | 0.5 |
| Other assistance | 1.3 | 1.8 |
| Total | 4.2 | 9.3 |

6. Retirement Benefits

The total charge for benefits under the Group's retirement benefit schemes was \$114 million (2002: \$73 million), of which \$78 million (2002: \$36 million) was for defined benefit pension schemes, \$34 million (2002: \$35 million) was for defined contribution pension schemes and \$2 million (2002: \$2 million) was for post-retirement benefits other than pensions. These have been assessed under the accounting standard, Statement of Standard Accounting Practice 24 – Retirement benefits (SSAP24).

UK Scheme

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme) is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2002 by T. Cunningham, Fellow of the Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. The assumptions having the most significant effect on the outcome of this valuation were:

| | |
|---|------------------------|
| Return from investments held for pensioners | 5.0 per cent per annum |
| Return from investments held for non-pensioners before retirement | 6.4 per cent per annum |
| Return from investments held for non-pensioners after retirement | 5.2 per cent per annum |
| General increase in salaries | 4.8 per cent per annum |
| Increase in pensions: | |
| In deferment (where applicable) | 2.3 per cent per annum |
| In payment* (pre April 1997 service) | 2.3 per cent per annum |
| In payment (post April 1997 service) | 2.3 per cent per annum |

*Applies to discretionary increases and some guaranteed increases.

6. Retirement Benefits continued

Applying these assumptions, at the valuation date the market value of the assets of the Fund (\$1,197 million) was sufficient to cover 97 per cent of the benefits that had accrued to members (84 per cent including the allowance for discretionary benefit increases). The Group paid an additional contribution of \$114 million into the Fund on 30 December 2003 to improve the financial position of the Fund. No further additional contributions are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2003 were set at 17.1 per cent of pensionable salary for all United Kingdom (UK) and seconded staff and 31.7 per cent of pensionable salary for international staff. These increased to 22.5 per cent and 38.4 per cent respectively with effect from 1 January 2004.

Pension costs for the purpose of these accounts were assessed using the same method, but the assumptions were different in several respects. In particular, the return from investments held for pensioners was 5.1 per cent per annum, the return from investments held for non-pensioners was 7.4 per cent per annum prior to retirement, and 5.5 per cent per annum after retirement.

During 2003 payments of \$139 million (2002: \$16 million) were made to the Fund and the charge in these accounts for pension costs attributable to the Fund was \$27 million (2002: \$8 million). This was made up of a regular cost of \$7 million (2002: \$9 million) and a variation charge of \$20 million (2002: credit of \$1 million), being the annual cost of spreading the deficit using the straight-line method over an eleven year period (2002: ten years). There were no material charges in respect of benefit improvements.

With effect from 1 July 1998 the Fund was closed to new entrants and all new employees are since offered membership of a defined contribution scheme.

Charges to the profit and loss account in 2003 in respect of other UK pension schemes amounted to \$16 million (2002: \$9 million).

Overseas Schemes

The actuarial positions of the Group's principal overseas defined benefit pension schemes have been assessed at various dates since 31 December 2002 by independent qualified actuaries. The total market value of the assets of the schemes at their respective assessment dates was \$227 million, and the total actuarial value of these assets was sufficient to cover 82 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. Within this total, there were schemes which had deficits amounting to \$54 million.

Contributions payable to the principal overseas scheme in 2003 ranged between 8 per cent and 23 per cent and these are expected to remain at these levels in the next few years.

The total charge to the profit and loss account in 2003 for all overseas schemes was \$71 million (2002: \$56 million), of which \$42 million (2002: \$28 million) was for defined benefit schemes, \$27 million (2002: \$26 million) was for defined contribution schemes and \$2 million (2002: \$2 million) was for post-retirement benefits other than pensions. The charge of \$71 million comprises a regular cost of \$40 million, and a variation charge of \$31 million in respect of the spreading of other surpluses and deficits.

Other assets (note 26) includes \$88 million (2002: \$11 million liability) representing the excess of contributions paid into the schemes concerned compared with the accumulated amount charged against the Group's profits in 2003 and previous years in respect of pension costs, together with a \$14 million liability (2002: \$13 million) representing provisions for post-retirement benefits other than pensions.

Financial Reporting Standard 17– Retirement Benefits

The disclosures required under the transitional arrangements within Financial Reporting Standard 17– Retirement Benefits (FRS17) have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated to 31 December 2003. (The effective date of the full valuations ranges between 31 December 2000 and 31 December 2002.)

Separate figures are disclosed for the UK Fund¹, Overseas Defined Benefit, Post-Retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2003 were:

| | Funded Defined Benefit Schemes | | | | | |
|---------------------------------------|--------------------------------|-----------|----------------------|-----------|---------------------------------------|------------|
| | 2003 % | 2002 % | UK Fund ¹ | | Overseas Pension Schemes ² | |
| | | | 2001 % | 2003 % | 2002 % | 2001 % |
| Price inflation | 2.80 | 2.30 | 2.50 | 2.00-3.50 | 1.50-3.50 | 1.50-3.50 |
| Salary increases | 5.30 | 4.80 | 5.00 | 4.80-7.00 | 4.00-7.00 | 4.25-7.00 |
| Pension increases | 2.40* | 2.30 | 2.50 | 0.00-2.40 | 2.25-3.00 | 2.50-3.00 |
| Discount rate | 5.50 | 5.70 | 6.00 | 5.00-8.00 | 5.00-12.00 | 5.75-12.00 |
| Post-retirement medical trend rate | N/A | N/A | N/A | N/A | N/A | N/A |

* Pension increases for the UK Fund range from 2.2 per cent to 2.6 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 2.8 per cent.

¹ Due to the closure of the UK Fund to new entrants under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

² The range of assumptions shown are for Hong Kong, India, Jersey, Kenya and the United States.

6. Retirement Benefits continued

| | Funded Defined Benefit Schemes | | | Unfunded Schemes | | |
|------------------------------|---|---|---|------------------|-----------|--------------------|
| | 2003 % | 2002 % | Post-retirement Medical ¹ 2001 % | 2003 % | 2002 % | Other 2001 % |
| Price inflation | 2.50 | 1.75 | 2.00 | 2.50-3.50 | 1.75-3.50 | 2.00-3.50 |
| Salary increases | 4.00 | 4.00 | 4.25 | 4.00-5.30 | 4.00-7.00 | 4.25-7.00 |
| Pension increases | N/A | N/A | N/A | 2.40 | 2.30 | 2.50 |
| Discount rate | 6.25 | 6.75 | 7.25 | 5.50-7.00 | 5.70-8.50 | 6.00-9.00 |
| Post-retirement medical rate | 10% in 2003 reducing by 1% per annum to 5% in 2008 | 10% in 2002 reducing by 1% per annum to 5% in 2007 | 12% in 2001 reducing by 1% per annum to 5% in 2008 | N/A | N/A | N/A |

¹ These values only cover the Post-Retirement Medical Plan in the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December were:

| | Funded Defined Benefit Schemes | | | | Unfunded Schemes | | | |
|---|--------------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|
| | UK Fund | | Overseas schemes | | Post-retirement Medical | | Other | |
| | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million |
| At 31 December 2003 | | | | | | | | |
| Equities | 8.60 | 543 | 7.00-9.50 | 131 | N/A | N/A | N/A | N/A |
| Bonds | 4.80-5.50 | 813 | 5.50-8.00 | 93 | N/A | N/A | N/A | N/A |
| Property | 6.70 | 1 | 6.70-8.00 | 4 | N/A | N/A | N/A | N/A |
| Others | 4.90 | 73 | 2.50-8.00 | 7 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,430 | | 235 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,509) | | (279) | | (12) | | (25) |
| Deficit* | | (79) | | (44) | | (12) | | (25) |
| Related deferred tax asset | | 24 | | 13 | | 4 | | 8 |
| Net pension asset/(liability) | | (55) | | (31) | | (8) | | (17) |

| | Funded Defined Benefit Schemes | | | | Unfunded Schemes | | | |
|---|--------------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|
| | UK Fund | | Overseas schemes | | Post-retirement Medical | | Other | |
| | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million |
| At 31 December 2002 | | | | | | | | |
| Equities | 8.30 | 237 | 7.00-12.00 | 98 | N/A | N/A | N/A | N/A |
| Bonds | 4.50 | 855 | 5.25-12.00 | 83 | N/A | N/A | N/A | N/A |
| Property | 6.40 | 1 | 7.00-12.00 | 2 | N/A | N/A | N/A | N/A |
| Others | 4.60 | 35 | 1.75-12.00 | 5 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,128 | | 188 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,235) | | (265) | | (14) | | (7) |
| Deficit* | | (107) | | (77) | | (14) | | (7) |
| Related deferred tax asset | | 32 | | 23 | | 4 | | 2 |
| Net pension asset/(liability) | | (75) | | (54) | | (10) | | (5) |

*No scheme contains a surplus that is non recoverable.

6. Retirement Benefits continued

| | Funded Defined Benefit Schemes | | | | Unfunded Schemes | | | |
|---|--------------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|
| | UK Fund | | Overseas schemes | | Post-retirement Medical | | Other | |
| | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million | Expected return on assets % | Value \$million |
| At 31 December 2001 | | | | | | | | |
| Equities | 9.00 | 289 | 7.00-12.00 | 135 | N/A | N/A | N/A | N/A |
| Bonds | 4.90 | 712 | 7.00-12.00 | 73 | N/A | N/A | N/A | N/A |
| Property | 7.00 | 1 | 7.00-12.00 | 2 | N/A | N/A | N/A | N/A |
| Others | 5.30 | 49 | 7.00-12.00 | 10 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,051 | | 220 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,044) | | (264) | | (13) | | (9) |
| Deficit* | | 7 | | (44) | | (13) | | (9) |
| Related deferred tax asset | | (2) | | 13 | | 4 | | 3 |
| Net pension asset/(liability) | | 5 | | (31) | | (9) | | (6) |

*No scheme contains a surplus that is non-recoverable.

If the above amounts had been recognised in the accounts, the Groups net assets and profit and loss reserve at the year end would be as follows:

| | 2003 \$million | 2002* \$million |
|---|-------------------|--------------------|
| Net assets excluding pension liability | 7,715 | 7,270 |
| Pension liability | (111) | (144) |
| Net assets including pension liability | 7,604 | 7,126 |
| Profit and loss account excluding pension liability | 4,009 | 3,643 |
| Pension liability | (111) | (144) |
| Profit and loss account | 3,898 | 3,499 |

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

The pension expense for defined benefit schemes on the FRS17 basis was:

| Year ending 31 December 2003 | Funded Defined Benefit Schemes | | Unfunded Schemes | | Total \$million |
|--|--------------------------------|-----------------------|---|--------------------|--------------------|
| | UK Fund \$million | Overseas \$million | Post-retirement medical \$million | Other \$million | |
| Current service cost | 11 | 22 | – | 4 | 37 |
| Past service cost | (2) | – | – | 8 | 6 |
| (Gain)/loss on settlement & curtailments | – | (5) | – | – | (5) |
| Total charge to operating profit | 9 | 17 | – | 12 | 38 |
| Expected return on pension scheme assets | (59) | (14) | – | – | (73) |
| Interest on pension scheme liabilities | 69 | 15 | 1 | 1 | 86 |
| Charge to investment income | 10 | 1 | 1 | 1 | 13 |
| Total charge to profit before deduction of tax | 19 | 18 | 1 | 13 | 51 |
| (Gain)/loss on assets* | (42) | (25) | – | – | (67) |
| Experience (gain)/loss on liabilities | 15 | (5) | (3) | 2 | 9 |
| Loss on change of assumptions | 109 | 10 | 1 | 3 | 123 |
| Total (gain)/loss recognised in Statement of Total Recognised Gains and Losses before tax | 82 | (20) | (2) | 5 | 65 |

*In excess of expected return.

6. Retirement Benefits continued

| Year ending 31 December 2002 | Funded Defined Benefit Schemes | | Unfunded Schemes | | Total \$million |
|---|--------------------------------|--------------------|-----------------------------------|-----------------|-----------------|
| | UK Fund \$million | Overseas \$million | Post-retirement medical \$million | Other \$million | |
| Current service cost | 10 | 22 | 1 | – | 33 |
| Past service cost | 2 | – | – | – | 2 |
| (Gain)/loss on settlement & curtailments | 1 | 1 | – | 6 | 8 |
| Total charge to operating profit | 13 | 23 | 1 | 6 | 43 |
| Expected return on pension scheme assets | (65) | (17) | – | – | (82) |
| Interest on pension scheme liabilities | 64 | 17 | 1 | – | 82 |
| Charge/(credit) to investment income | (1) | – | 1 | – | – |
| Total charge to profit before deduction of tax | 12 | 23 | 2 | 6 | 43 |
| (Gain)/loss on assets* | 63 | 36 | – | – | 99 |
| Experience (gain)/loss on liabilities | (14) | (16) | – | 1 | (29) |
| Loss on change of assumptions | 71 | 11 | 1 | 1 | 84 |
| Total (gain)/loss recognised in Statement of Total Recognised Gains and Losses before tax | 120 | 31 | 1 | 2 | 154 |

*In excess of expected return.

Movement in the pension schemes and post-retirement medical deficit during the year comprise:

| | Funded Defined Benefit Schemes | | Unfunded Schemes | | Total \$million |
|---------------------------------------|--------------------------------|--------------------|-----------------------------------|-----------------|-----------------|
| | UK Fund \$million | Overseas \$million | Post-retirement medical \$million | Other \$million | |
| Surplus/(deficit) at 1 January 2003 | (107) | (77) | (14) | (7) | (205) |
| Contributions | 139 | 33 | 1 | 1 | 174 |
| Current service cost | (11) | (22) | – | (4) | (37) |
| Past service cost | 2 | – | – | (8) | (6) |
| Settlement/curtailment costs | – | 5 | – | – | 5 |
| Other finance income/(charge) | (10) | (1) | (1) | (1) | (13) |
| Actuarial (loss)/gain | (82) | 20 | 2 | (5) | (65) |
| Exchange rate adjustment | (10) | (2) | – | (1) | (13) |
| Surplus/(deficit) at 31 December 2003 | (79) | (44) | (12) | (25) | (160) |

| | Funded Defined Benefit Schemes | | Unfunded Schemes | | Total \$million |
|---------------------------------------|--------------------------------|--------------------|-----------------------------------|-----------------|-----------------|
| | UK Fund \$million | Overseas \$million | Post-retirement medical \$million | Other \$million | |
| Surplus/(deficit) at 1 January 2002 | 7 | (44) | (13) | (9) | (59) |
| Contributions | 16 | 27 | 2 | 10 | 55 |
| Current service cost | (10) | (22) | (1) | – | (33) |
| Past service cost | (2) | – | – | – | (2) |
| Settlement/curtailment costs | (1) | (1) | – | (6) | (8) |
| Other finance income/(charge) | 1 | – | (1) | – | – |
| Actuarial (loss)/gain | (120) | (31) | (1) | (2) | (154) |
| Exchange rate adjustment | 2 | (6) | – | – | (4) |
| Surplus/(deficit) at 31 December 2002 | (107) | (77) | (14) | (7) | (205) |

6. Retirement Benefits continued

The history of experience gains and losses for the financial year is as follows:

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| (Gain)/loss on scheme assets: | | |
| Amount (\$million) | (67) | 99 |
| % of scheme assets at end of year | 4.02% | 7.52% |
| Experience (gain)/loss on scheme liabilities: | | |
| Amount (\$million) | 9 | (29) |
| % of scheme liabilities at end of year | 0.49% | 1.91% |
| Total actuarial loss recognised in statement of total recognised gains and losses: | | |
| Amount (\$million) | 65 | 154 |
| % of scheme liabilities at end of year | 3.56% | 10.12% |

7. Depreciation and Amortisation

| | 2003 \$million | 2002 \$million |
|-----------|-------------------|-------------------|
| Goodwill | 134 | 156 |
| Premises | 43 | 46 |
| Equipment | 204 | 143 |
| | 381 | 345 |

8. Directors and Officers

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 49 to 60.

Transactions with directors, officers and others

As at 31 December 2003, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the Listing Rules of the Stock Exchange of Hong Kong about loans to directors and officers were as follows:

| | Number | 2003 \$000 | Number | 2002 \$000 |
|-----------|--------|---------------|--------|---------------|
| Directors | 3 | 21 | 3 | 9 |
| Officers* | 12 | 6,373 | 11 | 6,726 |

*For this disclosure, the term 'officers' means the company secretary and band 1 senior management.

There were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the Listing Rules of the Stock Exchange of Hong Kong.

9. Taxation

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Analysis of taxation charge in the period | | |
| The charge for taxation based upon the profits for the period comprises: | | |
| United Kingdom corporation tax at 30 per cent (2002: 30 per cent): | | |
| Current tax on income for the year | 351 | 266 |
| Adjustments in respect of prior periods | (34) | 17 |
| Double taxation relief | (286) | (180) |
| Foreign tax: | | |
| Current tax on income for the period | 491 | 382 |
| Adjustments in respect of prior periods | (26) | (56) |
| Total current tax | 496 | 429 |
| Deferred tax: | | |
| Origination/reversal of timing differences | (1) | (42) |
| Tax on profits on ordinary activities | 495 | 387 |

Overseas taxation includes taxation on Hong Kong profits of \$109 million (2002: \$31 million) provided at a rate of 17.5 per cent (2002: 16 per cent) on the profits assessable in Hong Kong.

The current taxation charge for the year is higher than the standard rate of corporation tax in the United Kingdom, 30 per cent. The differences are explained below:

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Current tax reconciliation: | | |
| Profit on ordinary activities before taxation | 1,542 | 1,262 |
| Current tax at 30 per cent (2002: 30 per cent) | 463 | 379 |
| Effects of: | | |
| Goodwill amortisation not deductible for tax purposes | 39 | 46 |
| Higher taxes on overseas earnings | 60 | 55 |
| Non-allowable depreciation | 6 | 9 |
| Adjustments to tax charge in respect of previous periods | (59) | (39) |
| Other items | (13) | 48 |
| Gains covered by capital losses brought forward | - | (69) |
| Total current taxation charge | 496 | 429 |

10. Dividends on Non-equity Preference Shares

| | 2003 \$million | 2002 \$million |
|---|-------------------|-------------------|
| Non-cumulative irredeemable preference shares: | | |
| 7 $\frac{3}{8}$ per cent preference shares of £1 each | 12 | 11 |
| 8 $\frac{1}{4}$ per cent preference shares of £1 each | 13 | 12 |
| Non-cumulative redeemable preference shares: | | |
| 8.9 per cent preference shares of \$5 each | 30 | 85 |
| | 55 | 108 |

11. Dividends on Ordinary Equity Shares

| | 2003 | | 2002 | |
|---------|-----------------|-----------|-----------------|-----------|
| | Cents per share | \$million | Cents per share | \$million |
| Interim | 15.51 | 182 | 14.10 | 160 |
| Final | 36.49 | 429 | 32.90 | 385 |
| | 52.00 | 611 | 47.00 | 545 |

The 2003 final dividend of 36.49 cents per share will be paid in either sterling, Hong Kong dollars, or US dollars on 14 May 2004 to shareholders on the UK register of members at the close of business on 27 February 2004 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 27 February 2004. 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 dividend. Details of the dividend will be sent to shareholders on or around 22 March 2004.

12. Earnings per Ordinary Share

| | 2003 | | | 2002 | | |
|---|------------------|---------------------------------|------------------|------------------|---------------------------------|------------------|
| | Profit \$million | Average number of shares ('000) | Amount per share | Profit \$million | Average number of shares ('000) | Amount per share |
| Basic earnings per ordinary share | | | | | | |
| Profit attributable to ordinary shareholders | 963 | 1,167,333 | | 736 | 1,135,664 | |
| Premium paid on repurchase of preference shares | (12) | | | (82) | | |
| Basic earnings per ordinary share | 951 | 1,167,333 | 81.5c | 654 | 1,135,664 | 57.6c |
| Effect of dilutive potential ordinary shares | | | | | | |
| Convertible bonds | 21 | 34,488 | | 17 | 34,488 | |
| Options | – | 6,161 | | – | 2,168 | |
| Diluted earnings per ordinary share | 972 | 1,207,982 | 80.5c | 671 | 1,172,320 | 57.2c |

Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in Financial Reporting Standard 14. The following table shows the calculation of normalised earnings per share, i.e. based on the Group's results excluding amortisation of goodwill, profits/losses of a capital nature and profits/losses on repurchase of share capital.

| | 2003 \$million | 2002 \$million |
|---|----------------|----------------|
| Basic earnings per ordinary share, as above | 951 | 654 |
| Premium paid on repurchase of preference shares | 12 | 82 |
| Amortisation of goodwill | 134 | 156 |
| Profits less losses on disposal of investment securities | (62) | (18) |
| Amounts written off fixed asset investments | 11 | 8 |
| Impairment of tangible fixed assets | – | 9 |
| Profit on close-out of interest rate swap to hedge preference share dividends | – | (57) |
| Tax charge relating to profit on interest rate swap | – | 17 |
| Normalised earnings | 1,046 | 851 |
| Normalised earnings per ordinary share | 89.6c | 74.9c |

Please refer to note 36 for details of the repurchase of preference shares.

13. Treasury Bills and Other Eligible Bills

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Dealing securities | 156 | 164 |
| Investment securities | 5,533 | 4,886 |
| Total treasury bills and other eligible bills | 5,689 | 5,050 |

The estimated market value of treasury bills and similar securities held for investment purposes amounted to \$5,541 million (2002: \$4,895 million).

Treasury bills and other eligible bills include \$86 million (2002: \$202 million) of bills sold subject to sale and repurchase transactions.

The change in the book amount of treasury bills and similar securities held for investment purposes comprised:

| | Historical cost \$million | Amortisation of discounts/ premiums \$million | Book amount \$million |
|--|---------------------------------|--|-----------------------------|
| At 1 January 2003 | 4,866 | 20 | 4,886 |
| Exchange translation differences | 558 | (1) | 557 |
| Acquisitions | 12,706 | – | 12,706 |
| Maturities and disposals | (12,645) | (5) | (12,650) |
| Amortisation of discounts and premiums | – | 34 | 34 |
| At 31 December 2003 | 5,485 | 48 | 5,533 |

At 31 December 2003, unamortised discounts on treasury bills and similar securities held for investment purposes amounted to \$11 million (2002: \$10 million) and there were \$1 million unamortised premiums (2002: \$5 million).

14. Loans and Advances to Banks

| | 2003 \$million | 2002 \$million |
|---|-------------------|-------------------|
| Repayable on demand | 3,826 | 2,396 |
| With a residual maturity of: | | |
| Three months or less | 4,950 | 8,896 |
| Between three months and one year | 3,350 | 4,047 |
| Between one and five years | 705 | 387 |
| Over five years | 592 | 385 |
| | 13,423 | 16,111 |
| Provisions for bad and doubtful debts (note 17) | (59) | (103) |
| Interest in suspense (note 18) | (10) | (7) |
| | 13,354 | 16,001 |

Loans and advances to banks include balances with central banks and other regulatory authorities amounting to \$1,361 million (2002: \$1,239 million) which are required by local statute and regulation and \$nil (2002: \$128 million) which are subordinated to the claims of other parties.

15. Loans and Advances to Customers

| | 2003 \$million | 2002* \$million |
|--|-------------------|--------------------|
| Repayable on demand | 7,181 | 8,161 |
| With a residual maturity of: | | |
| Three months or less | 16,321 | 15,453 |
| Between three months and one year | 8,308 | 7,631 |
| Between one and five years | 12,429 | 11,673 |
| Over five years | 18,144 | 16,994 |
| | 62,383 | 59,912 |
| Specific provisions for bad and doubtful debts (note 17) | (1,602) | (1,721) |
| General provisions (note 17) | (425) | (468) |
| Interest in suspense (note 18) | (612) | (714) |
| | 59,744 | 57,009 |

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

There are loans of \$4 million (2002: \$4 million) which are subordinated to the claims of other parties.

The Group's exposure to credit risk is concentrated in Hong Kong and the Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Hong Kong residents of approximately \$12.5 billion (2002: \$13.0 billion).

The following table shows loans and advances to customers by each principal category of borrower's business or industry:

| | One year or less \$million | One to five years \$million | Over five years \$million | 2003 Total \$million | 2002 Total \$million |
|--|----------------------------------|-----------------------------------|---------------------------------|----------------------------|----------------------------|
| Loans to individuals: | | | | | |
| Mortgages | 2,072 | 4,333 | 14,320 | 20,725 | 20,388 |
| Other | 4,963 | 3,551 | 1,903 | 10,417 | 9,213 |
| Consumer Banking | 7,035 | 7,884 | 16,223 | 31,142 | 29,601 |
| Agriculture, forestry and fishing | 626 | 57 | 19 | 702 | 562 |
| Construction | 343 | 85 | 12 | 440 | 344 |
| Commerce | 4,921 | 433 | 70 | 5,424 | 4,984 |
| Electricity, gas and water | 666 | 142 | 166 | 974 | 716 |
| Financing, insurance and business services | 4,477 | 684 | 638 | 5,799 | 5,939 |
| Loans to governments | 1,008 | 78 | 25 | 1,111 | 945 |
| Mining and quarrying | 436 | 250 | 54 | 740 | 809 |
| Manufacturing | 6,721 | 1,314 | 360 | 8,395 | 8,323 |
| Commercial real estate | 1,162 | 692 | 14 | 1,868 | 1,819 |
| Transport, storage and communication | 1,826 | 635 | 485 | 2,946 | 2,786 |
| Other | 375 | 175 | 78 | 628 | 649 |
| Wholesale Banking | 22,561 | 4,545 | 1,921 | 29,027 | 27,876 |
| General provision | | | | (425) | (468) |
| | | | | 59,744 | 57,009 |

16. Assets Leased to Customers

| | 2003 \$million | 2002 \$million |
|------------------------------|-------------------|-------------------|
| Finance leases | 270 | 315 |
| Instalment credit agreements | 867 | 832 |
| | 1,137 | 1,147 |

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$146 million (2002: \$203 million).

The aggregate amounts of leasing income receivable, including capital repayments, under finance leases amounted to \$203 million (2002: \$183 million).

17. Provisions for Bad and Doubtful Debts

| | Specific \$million | 2003 General \$million | Specific \$million | 2002* General \$million |
|--|-----------------------|------------------------------|-----------------------|-------------------------------|
| Provisions held at 1 January | 1,824 | 468 | 2,059 | 468 |
| Exchange translation differences | 33 | - | 15 | - |
| Amount utilised | - | (33) | - | - |
| Amounts written off | (910) | - | (1,006) | - |
| Recoveries of amounts previously written off | 84 | - | 65 | - |
| Other | 84 | - | (14) | - |
| New provisions | 904 | - | 1,012 | - |
| Recoveries/provisions no longer required | (358) | (10) | (307) | - |
| Net charge against profit | 546 | (10) | 705 | - |
| Provisions held at 31 December | 1,661 | 425 | 1,824 | 468 |

*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 to their net book value.

The following table shows specific provisions by each principal category of borrower's business or industry:

| | 2003 \$million | 2002* \$million |
|--|-------------------|--------------------|
| Loans to individuals: | | |
| Mortgages | 85 | 76 |
| Other | 63 | 51 |
| Consumer Banking | 148 | 127 |
| Agriculture, forestry and fishing | 22 | 29 |
| Construction | 47 | 90 |
| Commerce | 469 | 556 |
| Electricity, gas and water | 17 | 16 |
| Financing, insurance and business services | 78 | 80 |
| Loans to governments | - | - |
| Mining and quarrying | 24 | 37 |
| Manufacturing | 618 | 652 |
| Commercial real estate | 23 | 20 |
| Transport, storage and communication | 62 | 27 |
| Other | 94 | 87 |
| Wholesale Banking | 1,454 | 1,594 |
| Provision for bad and doubtful debts against loans and advances to customers (note 15) | 1,602 | 1,721 |
| Provisions for bad and doubtful debts against loans and advances to banks (note 14) | 59 | 103 |
| Total provisions for bad and doubtful debts | 1,661 | 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 to their net book value.

18. Interest in Suspense

| | 2003 \$million | 2002* \$million |
|---|-------------------|--------------------|
| At 1 January | 853 | 803 |
| Exchange translation differences | (4) | 7 |
| Withheld from profit | 135 | 199 |
| Amounts written off | (259) | (156) |
| Other | – | – |
| At 31 December | 725 | 853 |
| Total interest in suspense relating to: | | |
| Loans and advances to customers (note 15) | 612 | 714 |
| Loans and advances to banks (note 14) | 10 | 7 |
| Prepayments and accrued income | 103 | 132 |
| | 725 | 853 |

*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 to their net book value.

19. Non-performing Loans

| | SCNB (LMA) \$million | Other \$million | 2003 Total \$million | SCNB (LMA) \$million | Other \$million | 2002* Total \$million |
|---|-------------------------|--------------------|----------------------------|-------------------------|--------------------|-----------------------------|
| Loans and advances on which interest is suspended | 772 | 3,031 | 3,803 | 781 | 3,476 | 4,257 |
| Specific provisions for bad and doubtful debts | (112) | (1,549) | (1,661) | (91) | (1,733) | (1,824) |
| Interest in suspense | – | (622) | (622) | – | (721) | (721) |
| | 660 | 860 | 1,520 | 690 | 1,022 | 1,712 |

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

The Group acquired Standard Chartered Nakornthon Bank (SCNB) (formerly Nakornthon Bank) in September 1999. Under the terms of the acquisition, non-performing loans (NPLs) of THB38.84 billion (\$981 million) were subject to a Loan Management Agreement (LMA) with the Financial Institutions Development Fund (FIDF), a Thai Government agency. Under the LMA, the FIDF has guaranteed the recovery of a principal amount of the NPLs of THB23 billion (\$581 million). The LMA also provides, inter alia, for loss sharing arrangements whereby the

FIDF will bear up to 85 per cent of losses in excess of the guaranteed amount. The carrying cost of the NPLs is reimbursable by the FIDF to SCNB every half year for a period of five years from the date of acquisition.

Excluding the SCNB non-performing loan portfolio, subject to the LMA, specific provisions and interest in suspense together cover 72 per cent (2002: 71 per cent) of total non-performing lending to customers.

| | Customers \$million | Banks \$million | 2003 Total \$million | Customers \$million | Banks \$million | 2002 Total \$million |
|---|------------------------|--------------------|----------------------------|------------------------|--------------------|----------------------------|
| Gross loans and advances on which interest is suspended | 104 | – | 104 | 189 | – | 189 |
| Gross loans and advances on which provisions have been raised | 3,535 | 164 | 3,699 | 3,856 | 212 | 4,068 |
| Total gross loans and advances on which interest is suspended | 3,639 | 164 | 3,803 | 4,045 | 212 | 4,257 |

Income suspended in the period amounted to \$206 million (2002: \$259 million). Income recognised in the period was \$71 million (2002: \$60 million).

20. Debt Securities and Other Fixed Income Securities

| | Book amount Investment securities \$million | Book amount Dealing securities \$million | Book amount Total debt securities \$million | 2003 Valuation Investment securities \$million |
|--|--|---|--|--|
| Issued by public bodies: | | | | |
| Government securities | 7,496 | 819 | 8,315 | 7,570 |
| Other public sector securities | 476 | – | 476 | 478 |
| | 7,972 | 819 | 8,791 | 8,048 |
| Issued by banks: | | | | |
| Certificates of deposit | 4,086 | 65 | 4,151 | 4,072 |
| Other debt securities | 5,215 | 353 | 5,568 | 5,212 |
| | 9,301 | 418 | 9,719 | 9,284 |
| Issued by other issuers: | | | | |
| Bills discountable with recognised markets | – | 17 | 17 | – |
| Other debt securities | 3,528 | 1,086 | 4,614 | 3,489 |
| | 3,528 | 1,103 | 4,631 | 3,489 |
| Total debt securities | 20,801 | 2,340 | 23,141 | 20,821 |
| Of which: | | | | |
| Listed on a recognised UK exchange | 5,855 | – | 5,855 | 5,846 |
| Listed elsewhere | 5,298 | 957 | 6,255 | 5,301 |
| Unlisted | 9,648 | 1,383 | 11,031 | 9,674 |
| | 20,801 | 2,340 | 23,141 | 20,821 |
| Book amount investment securities: | | | | |
| One year or less | 10,993 | | | |
| One to five years | 8,445 | | | |
| More than five years | 1,363 | | | |
| | 20,801 | | | |

20. Debt Securities and Other Fixed Income Securities continued

| | Book amount Investment securities \$million | Book amount Dealing securities \$million | Book amount Total debt securities \$million | 2002 Valuation Investment securities \$million |
|--|--|---|--|--|
| Issued by public bodies: | | | | |
| Government securities | 5,498 | 733 | 6,231 | 5,606 |
| Other public sector securities | 599 | – | 599 | 607 |
| | 6,097 | 733 | 6,830 | 6,213 |
| Issued by banks: | | | | |
| Certificates of deposit | 4,260 | 32 | 4,292 | 4,258 |
| Other debt securities | 4,494 | 247 | 4,741 | 4,492 |
| | 8,754 | 279 | 9,033 | 8,750 |
| Issued by other issuers: | | | | |
| Bills discountable with recognised markets | – | 113 | 113 | – |
| Other debt securities | 3,547 | 664 | 4,211 | 3,556 |
| | 3,547 | 777 | 4,324 | 3,556 |
| Total debt securities | 18,398 | 1,789 | 20,187 | 18,519 |
| Of which: | | | | |
| Listed on a recognised UK exchange | 4,167 | 24 | 4,191 | 4,169 |
| Listed elsewhere | 7,244 | 692 | 7,936 | 7,350 |
| Unlisted | 6,987 | 1,073 | 8,060 | 7,000 |
| | 18,398 | 1,789 | 20,187 | 18,519 |
| Book amount investment securities: | | | | |
| One year or less | 9,033 | | | |
| One to five years | 7,976 | | | |
| More than five years | 1,389 | | | |
| | 18,398 | | | |

Debt securities include \$559 million (2002: \$552 million) of securities sold subject to sale and repurchase transactions, and \$698 million (2002: \$552 million) which are subordinated to the claims of other parties.

The valuation of listed investments is at market value and of unlisted investments at directors' estimate.

The change in the book amount of debt securities held for investment purposes comprised:

| | Historical cost \$million | Amortisation of discounts/ premiums \$million | Book amount \$million |
|--|---------------------------------|--|-----------------------------|
| At 1 January 2003 | 18,383 | 15 | 18,398 |
| Exchange translation differences | 1,475 | 10 | 1,485 |
| Acquisitions | 50,266 | – | 50,266 |
| Maturities and disposals | (49,333) | (93) | (49,426) |
| Amortisation of discounts and premiums | – | 78 | 78 |
| At 31 December 2003 | 20,791 | 10 | 20,801 |

At 31 December 2003, unamortised premiums on debt securities held for investment purposes amounted to \$163 million (2002: \$307 million) and unamortised discounts amounted to \$366 million (2002: \$21 million).

21. Equity Shares and Other Variable Yield Securities

| | Book amount Investment securities \$million | 2003 Valuation Investment securities \$million | Book amount Investment securities \$million | 2002* Valuation Investment securities \$million |
|------------------------------------|--|--|--|---|
| Listed on a recognised UK exchange | 1 | 1 | 1 | 1 |
| Listed elsewhere | 261 | 353 | 69 | 66 |
| Unlisted | 97 | 97 | 123 | 123 |
| | 359 | 451 | 193 | 190 |
| One year or less | 14 | 14 | 6 | 5 |
| One to five years | 40 | 44 | 45 | 46 |
| More than five years | – | – | – | – |
| Undated | 305 | 393 | 142 | 139 |
| | 359 | 451 | 193 | 190 |

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

The valuation of listed securities is at market value and of unlisted securities at directors' estimate.

Income from listed equity shares amounted to \$5 million (2002: \$1 million) and income from unlisted equity shares amounted to \$9 million (2002: \$4 million).

The change in the book amount of equity shares held for investment purposes comprised:

| | Historical cost \$million | Provisions \$million | Book* amount \$million |
|----------------------------------|---------------------------------|-------------------------|------------------------------|
| At 1 January 2003 | 225 | (32) | 193 |
| Exchange translation differences | 4 | (1) | 3 |
| Acquisitions | 194 | – | 194 |
| Disposals | (19) | 1 | (18) |
| Amortisation | – | (5) | (5) |
| Other | (6) | (2) | (8) |
| At 31 December 2003 | 398 | (39) | 359 |

22. Investments in Subsidiary Undertakings

| | Historical cost \$million | Revaluation reserve \$million | Loans \$million | Total* \$million |
|---|---------------------------------|-------------------------------------|--------------------|---------------------|
| At 1 January 2003 | 4,240 | 3,120 | 1,542 | 8,902 |
| Exchange translation differences | 3 | – | 26 | 29 |
| Increase in net assets of subsidiary undertakings | – | 542 | – | 542 |
| At 31 December 2003 | 4,243 | 3,662 | 1,568 | 9,473 |

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

22. Investments in Subsidiary Undertakings *continued*

At 31 December 2003, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

| Country and place of incorporation or registration | Main areas of operation | Group interest in ordinary share capital |
|---|--|--|
| Standard Chartered Bank, England and Wales | United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa | 100% |
| Standard Chartered Bank Malaysia Berhad, Malaysia | Malaysia | 100% |
| Manhattan Card Company Limited, Hong Kong | Hong Kong | 100% |
| Standard Chartered Nakornthon Bank Public Company Limited, Thailand | Thailand | 75% |
| Banco Standard Chartered, Peru | Peru, Venezuela, Colombia and Americas | 100% |
| Standard Chartered Capital Management (Jersey) LLC | United States | 100% |
| Standard Chartered Receivables (UK) Limited | United Kingdom | 100% |
| Standard Chartered Financial Investments Limited | United Kingdom | 100% |
| Standard Chartered Debt Trading Limited | United Kingdom | 100% |

In 2003 the Group invested in a number of new entities that were set up for the purpose of structured transactions. All of these entities are consolidated into the Group Financial Statements.

Details of all Group companies will be filed with the next annual return of the Company.

23. Intangible Fixed Assets

| | Goodwill Smillion |
|---|----------------------|
| Cost | |
| At 1 January 2003 | 2,498 |
| Movements during the year | 2 |
| At 31 December 2003 | 2,500 |
| Provisions for amortisation | |
| At 1 January 2003 | 380 |
| Amortisation charged in the year | 134 |
| At 31 December 2003 | 514 |
| Net book value at 31 December 2003 | 1,986 |
| Net book value at 31 December 2002 | 2,118 |

Purchased goodwill in respect of acquisitions post 1 January 1998 is being amortised on a straight-line basis over a period of between 10 and 20 years. Prior to 1998 purchased goodwill was written off through reserves in the year of acquisition. Movements during the year related to the acquisition of an internet bank in South Africa.

24. Tangible Fixed Assets

| | Premises \$million | Equipment \$million | Total \$million |
|--|-----------------------|------------------------|--------------------|
| Cost or valuation | | | |
| At 1 January 2003 | 614 | 788 | 1,402 |
| Exchange translation differences | 9 | 24 | 33 |
| Additions | 43 | 113 | 156 |
| Disposals and fully depreciated assets written off | (37) | (98) | (135) |
| Other | (24) | 67 | 43 |
| At 31 December 2003 | 605 | 894 | 1,499 |
| Depreciation | | | |
| Accumulated at 1 January 2003 | 109 | 365 | 474 |
| Exchange translation differences | 3 | 12 | 15 |
| Charge for the year | 43 | 204 | 247 |
| Attributable to assets sold or written off | (26) | (95) | (121) |
| Accumulated at 31 December 2003 | 129 | 486 | 615 |
| Net book value at 31 December 2003 | 476 | 408 | 884 |
| Net book value at 31 December 2002 | 505 | 423 | 928 |

| | 2003 \$million | 2002 \$million |
|---|-------------------|-------------------|
| Premises – analysis of net book value | | |
| Freehold | 153 | 153 |
| Long leasehold | 75 | 74 |
| Short leasehold | 248 | 278 |
| | 476 | 505 |
| Premises – cost or valuation | | |
| At cost | 197 | 196 |
| At valuations made: | | |
| 1999 | 13 | 22 |
| 2002 | 395 | 396 |
| | 605 | 614 |
| On the historical cost basis, the book amount of premises amounted to: | | |
| Cost | 660 | 661 |
| Accumulated depreciation | (166) | (145) |
| Net book value | 494 | 516 |

Valuations were carried out on an open market existing use basis by the directors based upon the advice of independent qualified professional valuers. The net book value of premises occupied by the Group for its own activities at 31 December 2003 was \$476 million (2002: \$505 million). Cost or valuation of premises subject to depreciation at 31 December 2003 was \$499 million (2002: \$484 million).

25. Future Rental Commitments Under Operating Leases

The Group's future annual rental commitments under operating leases are as follows:

| | 2003 | | 2002 | |
|---|-----------------------|------------------------|-----------------------|------------------------|
| | Premises \$million | Equipment \$million | Premises \$million | Equipment \$million |
| Annual rental on operating leases expiring: | | | | |
| Within one year | 10 | 6 | 12 | 1 |
| Between one and five years | 35 | 4 | 31 | 1 |
| Five years or more | 26 | – | 33 | – |
| | 71 | 10 | 76 | 2 |

The majority of leases relating to premises are subject to rent reviews.

26. Other Assets

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Mark-to-market adjustments arising on foreign exchange and interest rate contracts | 7,778 | 5,031 |
| Hong Kong SAR Government certificates of indebtedness (note 41) | 2,249 | 2,015 |
| Assets awaiting sale | 1 | 13 |
| Provision for retirement benefits (see note 33) | 74 | – |
| Deferred taxation (note 32) | 271 | 236 |
| Other | 1,703 | 1,811 |
| | 12,076 | 9,106 |

The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties.

27. Deposits by Banks

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Repayable on demand | 3,894 | 2,742 |
| With agreed maturity dates or periods of notice, by residual maturity: | | |
| Three months or less | 5,057 | 6,718 |
| Between three months and one year | 1,502 | 1,112 |
| Between one and five years | 446 | 277 |
| Over five years | 25 | 1 |
| | 10,924 | 10,850 |

The deposits by banks over five years at 31 December 2003 are on a fixed rate charge. \$6 million is charged at 3 per cent and \$19 million at 5.56 per cent.

28. Customer Accounts

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Repayable on demand | 31,619 | 24,730 |
| With agreed maturity dates or periods of notice, by residual maturity: | | |
| Three months or less | 35,789 | 39,691 |
| Between three months and one year | 5,615 | 5,539 |
| Between one and five years | 742 | 1,666 |
| Over five years | 2 | – |
| | 73,767 | 71,626 |

29. Debt Securities in Issue

| | 2003 | | | 2002 | | |
|---------------------------------|--|---|--------------------|--|---|--------------------|
| | 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 |
| By residual maturity: | | | | | | |
| Three months or less | 1,711 | 612 | 2,323 | 1,642 | 142 | 1,784 |
| Between three and six months | 487 | 52 | 539 | 411 | 138 | 549 |
| Between six months and one year | 1,030 | 59 | 1,089 | 648 | 28 | 676 |
| Between one and five years | 1,552 | 459 | 2,011 | 1,527 | 152 | 1,679 |
| Over five years | 13 | 87 | 100 | 27 | 162 | 189 |
| | 4,793 | 1,269 | 6,062 | 4,255 | 622 | 4,877 |

30. Structure of Deposits

The following table sets out the structure of the Group's deposits by principal geographic regions where it operates at 31 December 2003 and 31 December 2002:

| | 2003 \$million | 2002 \$million |
|------------------------------------|-------------------|-------------------|
| Deposits by banks (note 27) | 10,924 | 10,850 |
| Customer accounts (note 28) | 73,767 | 71,626 |
| Debt securities in issue (note 29) | 6,062 | 4,877 |
| | 90,753 | 87,353 |

30. Structure of Deposits *continued*

| | Asia Pacific | | | | | MESA | | | Americas, UK & Group Head Office | Total | 2003 |
|---|---------------------------|------------------------|-----------------------|------------------------------------|--------------------|------------------|---|---------------------|---|--------------------|------|
| | 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 | |
| Non interest bearing current and demand accounts | 2,997 | 1,814 | 781 | 944 | 1,049 | 775 | 920 | 867 | 433 | 10,580 | |
| Interest bearing current and demand accounts | 14,294 | 1,538 | 94 | 1,906 | 3 | 599 | 325 | 991 | 3,863 | 23,613 | |
| Savings deposits | 22 | 492 | 453 | 978 | 786 | 214 | 1,080 | 520 | 4 | 4,549 | |
| Time deposits | 12,671 | 7,751 | 2,833 | 4,993 | 2,987 | 2,108 | 1,480 | 749 | 8,105 | 43,677 | |
| Other deposits | 16 | 45 | 593 | 803 | 230 | 169 | 246 | 150 | 20 | 2,272 | |
| Total | 30,000 | 11,640 | 4,754 | 9,624 | 5,055 | 3,865 | 4,051 | 3,277 | 12,425 | 84,691 | |
| Deposits by banks (note 27) | 1,097 | 921 | 733 | 1,725 | 1,234 | 955 | 305 | 160 | 3,794 | 10,924 | |
| Customer accounts (note 28) | 28,903 | 10,719 | 4,021 | 7,899 | 3,821 | 2,910 | 3,746 | 3,117 | 8,631 | 73,767 | |
| | 30,000 | 11,640 | 4,754 | 9,624 | 5,055 | 3,865 | 4,051 | 3,277 | 12,425 | 84,691 | |
| Debt securities in issue (note 29) | 2,068 | 346 | 351 | 783 | 87 | – | – | 1 | 2,426 | 6,062 | |
| Total | 32,068 | 11,986 | 5,105 | 10,407 | 5,142 | 3,865 | 4,051 | 3,278 | 14,851 | 90,753 | |
| | | | | | | | | | | | 2002 |
| | | | | | | | | | | | |
| Non interest bearing current and demand accounts | 1,341 | 992 | 828 | 597 | 807 | 775 | 690 | 696 | 428 | 7,154 | |
| Interest bearing current and demand accounts | 10,841 | 1,860 | 76 | 1,590 | 3 | 197 | 303 | 908 | 2,939 | 18,717 | |
| Savings deposits | 553 | 455 | 514 | 1,117 | 584 | 195 | 956 | 416 | 11 | 4,801 | |
| Time deposits | 14,615 | 7,779 | 2,739 | 4,812 | 2,722 | 2,190 | 1,341 | 525 | 11,726 | 48,449 | |
| Other deposits | 5 | 382 | 444 | 1,097 | 113 | 120 | 290 | 26 | 878 | 3,355 | |
| Total | 27,355 | 11,468 | 4,601 | 9,213 | 4,229 | 3,477 | 3,580 | 2,571 | 15,982 | 82,476 | |
| Deposits by banks (note 27) | 649 | 1,356 | 422 | 2,183 | 1,078 | 749 | 407 | 113 | 3,893 | 10,850 | |
| Customer accounts (note 28) | 26,706 | 10,112 | 4,179 | 7,030 | 3,151 | 2,728 | 3,173 | 2,458 | 12,089 | 71,626 | |
| | 27,355 | 11,468 | 4,601 | 9,213 | 4,229 | 3,477 | 3,580 | 2,571 | 15,982 | 82,476 | |
| Debt securities in issue (note 29) | 1,813 | 177 | 295 | 358 | 82 | – | – | – | 2,152 | 4,877 | |
| Total | 29,168 | 11,645 | 4,896 | 9,571 | 4,311 | 3,477 | 3,580 | 2,571 | 18,134 | 87,353 | |

31. Other Liabilities

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Mark-to-market adjustments arising on foreign exchange and interest rate contracts | 7,792 | 5,454 |
| Notes in circulation (note 41) | 2,249 | 2,015 |
| Short positions in treasury bills | 73 | 69 |
| Short positions in debt securities | 461 | 178 |
| Current taxation | 228 | 255 |
| Proposed dividend | 439 | 385 |
| Other liabilities | 2,764 | 3,262 |
| | 14,006 | 11,618 |

Short positions in treasury bills and short positions in debt securities are stated at market value.

32. Deferred Taxation

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| Deferred taxation comprises: | | |
| Accelerated tax depreciation | 14 | 1 |
| Provisions for bad debts | (180) | (173) |
| Other timing differences | (105) | (64) |
| | (271) | (236) |
| Changes in deferred taxation balances during the year comprised: | | |
| At 1 January | (236) | (188) |
| Exchange translation differences | (21) | (4) |
| Charge against (credit to)/profit | (1) | (42) |
| Other | (13) | (2) |
| At 31 December | (271) | (236) |

The net deferred tax asset is included in other assets.

| | 2003 \$million | 2002 \$million |
|--|-------------------|-------------------|
| No account has been taken of the following potential deferred taxation assets/(liabilities): | | |
| Accelerated tax depreciation | - | - |
| Tax losses carried forward | 26 | 53 |
| Provisions for bad debts | 20 | 20 |
| Other | 10 | 10 |
| Unrelieved foreign tax | 143 | 76 |
| Premises revaluation | (16) | (16) |

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future. As it is expected that substantially all such assets will be retained by the Group, it is considered that no useful purpose would be served by attempting to quantify the unprovided potential liability.

33. Provisions for Liabilities and Charges

| | Provision for restructuring \$million | Provision for retirement benefits \$million | Provision for contingent liabilities and commitments \$million | Other provisions | Total \$million |
|------------------------------------|--|--|---|------------------|--------------------|
| At 1 January 2003 | 23 | 24 | 16 | – | 63 |
| Exchange translation differences | – | (2) | 1 | – | (1) |
| Charge against profit | (3) | 114 | – | 12 | 123 |
| Provisions utilised | (20) | (207) | 1 | (12) | (238) |
| Other | – | (3) | 23 | 5 | 25 |
| At 31 December 2003 | – | (74) | 41 | 5 | (28) |
| Less: reclassified to other assets | | | | | 74 |
| | | | | | 46 |

In August 2000, the Group announced a major efficiency programme to improve efficiency and customer service. This involved a major restructuring and reshaping of the Group's business. The remaining provision has been utilised in 2003.

34. Subordinated Loan Capital

| | 2003 \$million | 2002* \$million |
|---|-------------------|--------------------|
| Undated – Company | | |
| Primary Capital Floating Rate Notes: | | |
| \$400 million | 400 | 400 |
| \$300 million (Series 2) | 300 | 300 |
| \$400 million (Series 3) | 400 | 400 |
| \$200 million (Series 4) | 200 | 200 |
| £150 million | 268 | 242 |
| Undated subordinated loan capital – Group | 1,568 | 1,542 |
| Dated – Subsidiary undertakings | | |
| £30 million Floating Rate Notes 2009 | 53 | 48 |
| £300 million 6.75 per cent Notes 2009 | 480 | 433 |
| €600 million 5.375 per cent Notes 2009 | 676 | 562 |
| \$25 million Floating Rate Notes 2004/2009 | 25 | 25 |
| BWP 75 million Floating Rate Notes 2012 | 17 | 14 |
| \$325 million Floating Rate Notes 2005/2010 | 312 | 311 |
| €575 million 4.5 per cent Notes 2010 | 714 | 592 |
| \$700 million 8.0 per cent subordinated notes 2031 | 621 | 620 |
| €500 million 8.16 per cent non-cumulative Trust Preferred Securities 2010 | 624 | 518 |
| £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities | 531 | 479 |
| £200 million Step-Up Notes 2022 | 346 | 311 |
| Dated subordinated loan capital – Group | 4,399 | 3,913 |
| Dated subordinated loan capital – repayable: | | |
| Within one year | 25 | – |
| Between one and two years | 1,026 | – |
| Between two and five years | – | 928 |
| Over five years | 3,348 | 2,985 |
| Dated subordinated loan capital – Group | 4,399 | 3,913 |
| Total subordinated liabilities | 5,967 | 5,455 |

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

34. Subordinated Loan Capital continued

All dated and undated loan capital described above is unsecured, unguaranteed and subordinated to the claims of other creditors including, without limitation, customer deposits and deposits by banks.

On 17 March 2000, the Group issued at par €575 million of 4.5 per cent Subordinated Guaranteed Convertible Bonds via a Jersey incorporated subsidiary, Standard Chartered Finance (Jersey) Ltd. The bondholders have the right to convert each bond (denominated in units of €1,000 face value) into one fully paid €1,000 Preference Share in Standard Chartered Finance (Jersey) Ltd at any time on or after 26 April 2000. These will be exchanged immediately for ordinary shares in Standard Chartered PLC at a price of 1,018.70 pence per ordinary share (the 'exchange price', which is subject to adjustment as set out in the offering circular). Unless previously redeemed, purchased and cancelled or converted, bonds will be redeemed on 30 March 2010, although they may be redeemed at Standard Chartered's option after 15 April 2005. They may be redeemed earlier if 85 per cent of the bonds have been converted.

On 11 May 2001, the Group issued Tier 1 Capital £300 million of 8.103 per cent Step-up Callable Perpetual Trust Preferred Securities. They are redeemable at the option of Standard Chartered Bank ("the Bank") on 11 May 2016 or on any coupon payment date thereafter. Dividends are set at a rate of 8.103 per cent per annum until 2016. Thereafter they will be reset every five years as the aggregate of 4.275 per cent and the five year benchmark gilt-rate. The preferred securities may, at the Bank's option, be either exchanged or their terms varied so that they become Upper Tier 2 securities, upon the occurrence of certain tax or regulatory events.

On 22 March 2000, the Group issued Tier 1 Capital €500 million of 8.16 per cent Non-cumulative Trust Preferred Securities in Standard Chartered Capital Trust 1LP, a Delaware statutory business trust, representing a corresponding amount of 8.16 per cent Non-cumulative Partnership Preferred Securities of Standard Chartered Capital 1LP, a Delaware limited partnership in which Standard Chartered Bank ('the Bank') is the general partner. The securities may be redeemed at the option of the Bank in its capacity as general partner of the Partnership in whole or (in certain circumstances) in part on 23 March 2010 or in whole or in part on any dividend payment date thereafter. Dividends are fixed at 8.16 per cent for ten years and at Euribor plus 3.8 per cent thereafter. The securities will be exchanged for preference shares in Standard Chartered PLC in the event that they have not been redeemed by 2045, the Bank's or Group's total capital ratio is less than the regulatory minimum or the Partnership is liquidated. The holders of the securities will have the right, subject to the Partnership's right of redemption, to exchange their securities for the cash proceeds of a sale of ordinary shares of Standard Chartered PLC on 23 March 2010.

On 30 October 2000, the Group issued £200 million Undated Subordinated Step-Up Notes. They are redeemable at the option of the Bank at par on 31 January 2022. The coupon is 7.75 per cent fixed until 31 January 2022, when the rate will be re-fixed.

The Group policy is to manage its capital actively. During 2002 the Group bought back a portion of its subordinated debt issues on the open market. The amounts stated are net of the repurchases.

35. Minority Interests

The change in minority shareholders' interests in subsidiary undertakings comprised:

| | Equity \$million | Non equity \$million | Total \$million |
|----------------------------------|---------------------|-------------------------|--------------------|
| At 1 January 2003 | 75 | 174 | 249 |
| Exchange translation differences | 3 | - | 3 |
| Additions | - | 355 | 355 |
| Retained profits | 7 | - | 7 |
| Other | (2) | 2 | - |
| At 31 December 2003 | 83 | 531 | 614 |

Non equity minority interests include third party investments in the Global Liquidity Fund.

36. Called-up Share Capital

Authorised

The authorised share capital of the Company at 31 December 2003 was \$4,971 million (2002: \$4,671 million) made up of 2,632 million ordinary shares of \$0.50 each, 500 million non-cumulative preference shares of £1 each, 300 million non-cumulative preference shares of \$5 each and one million non-cumulative preference shares of €1,000 each.

| | Preference shares of \$5 each Number of shares (^{'000}) | Preference shares of £1 each Number of shares (^{'000}) | Ordinary shares of \$0.50 each Number of shares (^{'000}) | Total \$million |
|--|---|--|--|--------------------|
| Allotted, called-up and fully paid | | | | |
| At 1 January 2003 | 341 | 200,000 | 1,170,051 | 909 |
| Exchange translation differences | - | - | - | 35 |
| Preference shares repurchased | (10) | (4,715) | - | (8) |
| Issued instead of dividends | - | - | 2,756 | 2 |
| Issued under employee share option schemes | - | - | 2,011 | 1 |
| At 31 December 2003 | 331 | 195,285 | 1,174,818 | 939 |

On 13 May 2003, 1,897,212 ordinary shares were issued instead of the 2002 final dividend. On 10 October 2003, 858,819 ordinary shares were issued instead of the 2003 interim dividend.

On 4 December 2002 the Company repurchased 659,126 8.9 per cent non-cumulative preference shares of \$5 each. The shares were repurchased at a price of \$1,110 per share. The total premium paid on the repurchase equated to \$82 million. This, however, was partially offset by a gain on unwinding the interest rate swaps hedging the position of \$57 million.

During 2003, the Company repurchased 9,486 8.9 per cent non-cumulative preference shares of \$5 each. The US\$5 preference shares were repurchased at prices between \$1,112.50 and \$1,140.52. The total premium paid on the repurchase was \$10.7 million. The repurchased shares were cancelled leaving 331,388 of the 8.9 per cent dollar preference shares in issue.

During 2003, the Company repurchased 3,965,000 7% per cent non-cumulative preference shares of £1 each. The preference shares were repurchased at prices between £1.12875 and £1.13. The total premium paid on the repurchase was \$0.9 million. The repurchased shares were cancelled leaving 96,035,000 of the 7% per cent sterling preference shares in issue.

During 2003, the Company repurchased 750,000 8¼ per cent non-cumulative preference shares of £1 each. The preference shares were repurchased at £1.22875. The total premium paid on the repurchase was \$0.3 million. The repurchased shares were cancelled leaving 99,250,000 the 8¼ per cent sterling preference shares in issue.

Subject to certain conditions, all or part of the 8.9 per cent non-cumulative preference shares of \$5 each may be redeemed at the option of the issuer, at dividend payment dates on or after October 2006.

The non-cumulative 7% per cent and 8¼ per cent preference shares of £1 each are irredeemable and carry the right to repayment of capital in the event of a winding up of the Company. They do not carry a right to vote at general meetings unless a dividend is unpaid or a resolution is proposed at the meeting to vary their rights.

Up to 117,481,806 ordinary shares of \$0.50 each, being part of the authorised share capital, may be issued under the employee share schemes.

36. Called-up Share Capital continued**1984 and 1994 Executive Share Option Schemes**

As at 1 January 2003, there were options outstanding over 5,103,991 ordinary shares under the schemes. During the year options over 163,355 ordinary shares lapsed and options over 1,175,272 ordinary shares were exercised at various prices from 175.375 pence to 808.5 pence. There were no options granted under these schemes during the year.

As at 31 December 2003, there were options outstanding over 3,765,364 ordinary shares which may be exercised on various dates up to 2009 under the rules of the schemes.

1997 Restricted Share Scheme

As at 1 January 2003, there were awards outstanding over 4,938,714 ordinary shares. During the year, awards over 905,152 ordinary shares were exercised and awards over 208,513 ordinary shares lapsed.

The following awards were made:

| Date award made | Number of shares awarded | Exercise period |
|-------------------|--------------------------|-----------------|
| 5 March 2003 | 1,607,219 | 2005–2010 |
| 13 May 2003 | 67,631 | 2005–2010 |
| 18 September 2003 | 62,581 | 2005–2010 |

As at 31 December 2003, there were awards outstanding over 5,562,480 ordinary shares.

2000 Executive Share Option Scheme

As at 1 January 2003 there were options outstanding over 19,674,500 ordinary shares under the scheme. During the year options over 1,241,786 ordinary shares lapsed and 682,124 ordinary share options were exercised at various prices from 722.8 pence to 871.02 pence.

The following options were granted under the scheme:

| Date option granted | Option price per share | Number of shares under option | Exercise period |
|---------------------|------------------------|-------------------------------|-----------------|
| 5 March 2003 | 690.5p | 9,871,361 | 2006–2013 |
| 13 May 2003 | 742.5p | 129,916 | 2006–2013 |
| 18 September 2003 | 852p | 115,111 | 2006–2013 |

The exercise of options granted during the year will be linked to performance criteria.

As at 31 December 2003, there were options outstanding over 27,866,978 ordinary shares which may be exercised at various dates up to 2013 under the rules of the scheme.

Supplemental Executive Share Option Scheme

As at 1 January 2003, there were options outstanding over 1,302,468 ordinary shares under the scheme. During the year 468,522 options over ordinary shares lapsed and there were no exercises.

The exercise of these options will be linked to performance criteria.

As at 31 December 2003, there were options outstanding over 833,946 ordinary shares, which may be exercised on various dates up to 2005 under the scheme rules.

36. Called-up Share Capital continued

2001 Performance Share Plan

At 1 January 2003 there were awards outstanding over 1,621,832 ordinary shares.

The following awards were granted under the Plan:

| Date award granted | Number of shares under award | Exercise period |
|--------------------|------------------------------|-----------------|
| 5 March 2003 | 1,051,667 | 2006–2013 |

The awards granted under the 2001 performance share plan are nil cost options. The exercise of awards granted during the year will be linked to performance criteria. During the year awards over 39,745 ordinary shares lapsed. No awards were exercised.

At 31 December 2003 there were awards outstanding over 2,633,754 ordinary shares.

Savings Related Share Option Schemes

UK Scheme

At 1 January 2003, there were options outstanding over 1,898,043 ordinary shares under this scheme. During the year, options were exercised over 489,661 ordinary shares at prices from 304 pence to 723 pence and 210,596 options lapsed. The following options were granted under the scheme:

| Date option granted | Option price per share | Number of shares under option | Exercise period |
|---------------------|------------------------|-------------------------------|-----------------|
| 8 September 2003 | 641p | 334,877 | 2006–2009 |

At 31 December 2003, there were options outstanding over 1,532,663 ordinary shares, which may be exercised at various dates up to 2009 under the rules of the scheme.

International Scheme

At 1 January 2003, there were 8,702,154 options outstanding under the scheme. During the year, 1,459,675 options lapsed. Options were exercised over 843,606 ordinary shares at prices from 334 pence to 723 pence and the following options were granted under the scheme:

| Date option granted | Option price per share | Number of shares under option | Exercise period |
|---------------------|------------------------|-------------------------------|-----------------|
| 18 September 2003 | 641p | 1,610,531 | 2006–2009 |
| 11 November 2003 | 684p | 11,954 | 2006–2009 |

At 31 December 2003, there were options outstanding over 8,021,358 ordinary shares which may be exercised on various dates up to 2009 under the rules of the scheme.

37. Shareholders' Funds

| | Share capital \$million | Share premium account \$million | Capital reserve \$million | Capital redemption reserve \$million | Premises revaluation reserve \$million | Profit and loss account \$million | 2003* Total shareholders' funds \$million | 2002* Total shareholders' funds \$million |
|--|----------------------------|------------------------------------|------------------------------|---|---|--------------------------------------|---|---|
| At 1 January | 909 | 2,764 | 5 | 3 | 3 | 3,643 | 7,327 | 7,538 |
| Exchange translation differences | 35 | - | - | - | (2) | 34 | 67 | - |
| Shares issued, net of expenses | 3 | 46 | - | - | - | - | 49 | 387 |
| Repurchase of preference shares | (8) | - | - | 8 | - | (20) | (20) | (741) |
| Retained profit for the year | - | - | - | - | - | 352 | 352 | 191 |
| Premises revaluation | - | - | - | - | - | - | - | (48) |
| Capitalised on exercise of share options | - | 3 | - | - | - | (3) | - | - |
| Realised on disposal of premises | - | - | - | - | (3) | 3 | - | - |
| At 31 December | 939 | 2,813 | 5 | 11 | (2) | 4,009 | 7,775 | 7,327 |
| Own shares held in ESOP Trust | | | | | | | (60) | (57) |
| | | | | | | | 7,715 | 7,270 |
| Equity interests | | | | | | | 7,066 | 6,638 |
| Non-equity interests | | | | | | | 649 | 632 |
| At 31 December | | | | | | | 7,715 | 7,270 |

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

The cumulative amount of premiums on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2002: \$27 million). This excludes amounts in respect of businesses sold.

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

The Royal Bank of Scotland Trust Company (Jersey) Limited is trustee of the 1995 Employees' Share Ownership Plan Trust (the 'trust'), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes. The Trustee has agreed to satisfy a number of awards made under these schemes. 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.

The trust has acquired, at market value, 9,513,386 (2002: 7,160,366) Standard Chartered PLC shares which are held in a pool for the benefit of participants under the Group's Restricted Share Scheme and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group.

At 31 December 2003, the trust held 9,513,386 (2002: 7,160,366) shares, of which 4,733,884 (2002: 2,032,122) have vested unconditionally. The balance of 4,779,502 (2002: 5,122,244) shares has been included in the Group balance sheet, as investments in own shares, at a cost of \$60 million (2002: \$57 million). The market value of the unvested shares at 31 December 2003 was \$79 million (2002: \$58 million). 4,585,901 (2002: 3,022,244) shares have been conditionally gifted to employees and 193,602 (2002: 2,100,000) shares are under option to employees. Dividends on the shares held have been waived.

38. Company Share Capital and Reserves

| | Share capital \$million | Share premium account \$million | Capital reserve \$million | Capital redemption reserve \$million | Revaluation reserve \$million | Profit and loss account \$million | 2003 Total shareholders' funds \$million | 2002* Total shareholders' funds \$million |
|--|----------------------------|------------------------------------|------------------------------|---|----------------------------------|--------------------------------------|--|---|
| At 1 January | 909 | 2,764 | 5 | 3 | 3,120 | 469 | 7,270 | 7,538 |
| Exchange translation differences | 35 | - | - | - | - | (2) | 33 | 28 |
| Shares issued, net of expenses | 3 | 46 | - | - | - | - | 49 | 389 |
| Repurchase of preference shares | (8) | - | - | 8 | - | (20) | (20) | (741) |
| Increase/(decrease) in net assets of subsidiary undertakings | - | - | - | - | 542 | - | 542 | (682) |
| Profit for the year | - | - | - | - | - | 507 | 507 | 1,391 |
| Capitalised on exercise of share options | - | 3 | - | - | - | (3) | - | - |
| Dividends paid and proposed | - | - | - | - | - | (666) | (666) | (653) |
| At 31 December | 939 | 2,813 | 5 | 11 | 3,662 | 285 | 7,715 | 7,270 |
| Equity interests | | | | | | | 7,066 | 6,638 |
| Non-equity interests | | | | | | | 649 | 632 |
| At 31 December | | | | | | | 7,715 | 7,270 |

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

39. Consolidated Cash Flow Statement

(a) Reconciliation between operating profit before taxation and net cash inflow from operating activities

| | 2003 \$million | 2002 \$million |
|---|-------------------|-------------------|
| Operating profit | 1,542 | 1,262 |
| Items not involving cash flow: | | |
| Amortisation of goodwill | 134 | 156 |
| Depreciation and amortisation of premises and equipment | 247 | 189 |
| (Gain)/loss on disposal of tangible fixed assets | (14) | 3 |
| Gain on disposal of investment securities | (62) | (18) |
| Amortisation of investments | (107) | (48) |
| Charge for bad and doubtful debts and contingent liabilities | 536 | 712 |
| Amounts written off fixed asset investments | 11 | 8 |
| Debts written off, net of recoveries | (807) | (966) |
| Increase/(decrease) in accruals and deferred income | 203 | (256) |
| Decrease/(increase) in prepayments and accrued income | 88 | (16) |
| Adjustments for items shown separately: | | |
| Interest paid on subordinated loan capital | 298 | 330 |
| Premium and costs on payment of subordinated liabilities | - | 10 |
| Net cash inflow from trading activities | 2,069 | 1,366 |
| Net increase in cheques in the course of collection | (27) | (19) |
| Net (increase)/decrease in treasury bills and other eligible bills | (76) | (93) |
| Net decrease in loans and advances to banks and customers | 2,398 | 485 |
| Net increase in deposits from banks, customer accounts and debt securities in issue | 2,128 | 2,891 |
| Net increase in dealing securities | (1,550) | (302) |
| Net (increase)/decrease in mark-to-market adjustment | (403) | 414 |
| Net (decrease)/increase in other accounts* | (791) | 36 |
| Net cash inflow from operating activities | 3,748 | 4,778 |

*This includes the effects of foreign exchange translation in the local books of subsidiaries and branches.

39. Consolidated Cash Flow Statement continued**(b) Analysis of changes in cash**

| | 2003 \$million | 2002 \$million |
|----------------------------------|--------------------------|-------------------|
| Balance at 1 January | 3,496 | 3,549 |
| Exchange translation differences | (7) | 61 |
| Net cash inflow/(outflow) | 2,172 | (114) |
| Balance at 31 December | 5,661 | 3,496 |

(c) Analysis of cash

| | 2003 \$million | 2002 \$million |
|------------------------------------|--------------------------|-------------------|
| Cash and balances at central banks | 1,835 | 1,100 |
| Demand loans and advances to banks | 3,826 | 2,396 |
| | 5,661 | 3,496 |

(d) Analysis of changes in financing during the year

| | 2003 | | | | | 2002 | | | | |
|--|-------------------------------|-------------------------------|---------------------------------|---|------------------------------|-------------------------------|-------------------------------|---------------------------------|---|------------------------------|
| | Share capital \$million | Share premium \$million | Capital reserve \$million | Capital redemption reserve \$million | Loan capital \$million | Share capital \$million | Share premium \$million | Capital reserve \$million | Capital redemption reserve \$million | Loan capital \$million |
| At 1 January | 909 | 2,764 | 5 | 3 | 5,455 | 861 | 2,761 | 5 | – | 5,348 |
| Exchange translation differences | 35 | – | – | – | 512 | 32 | – | – | – | 450 |
| Transfer from share premium as a result of capital conversion | – | – | – | – | – | – | – | – | – | – |
| Share capital issued, net of expenses | 3 | 46 | – | – | – | 19 | 329 | – | – | – |
| Repurchase of preferences shares | (8) | – | – | 8 | – | (3) | (328) | – | 3 | – |
| Capitalised on exercise of share options | – | 3 | – | – | – | – | 2 | – | – | – |
| Issue of subordinated loan capital, net of expenses | – | – | – | – | – | – | – | – | – | 12 |
| Repayment of subordinated liabilities | – | – | – | – | – | – | – | – | – | (355) |
| Balance at 31 December | 939 | 2,813 | 5 | 11 | 5,967 | 909 | 2,764 | 5 | 3 | 5,455 |

40. Segmental Information

By Geographic Segment

The following tables set out profit and loss information, average loans and advances to customers, net interest margin and selected balance sheet information by geographic segment for the years ended 31 December 2003 and 2002:

| | Asia Pacific | | | | | MESA | | | Americas, UK & Group Head Office | | 2003 |
|--|---------------------|---------------------|--------------------|------------------------------|-----------------|---------------|--|------------------|----------------------------------|-----------------|------|
| | Hong Kong \$million | Singapore \$million | Malaysia \$million | Other Asia Pacific \$million | India \$million | UAE \$million | Other Middle East & Other South Asia \$million | Africa \$million | Head Office \$million | Total \$million | |
| Interest receivable | 1,473 | 621 | 318 | 700 | 513 | 215 | 291 | 409 | 1,182 | 5,722 | |
| Interest payable | (531) | (287) | (145) | (300) | (258) | (71) | (94) | (161) | (907) | (2,754) | |
| Net interest income | 942 | 334 | 173 | 400 | 255 | 144 | 197 | 248 | 275 | 2,968 | |
| Fees and commissions receivable, net | 313 | 118 | 47 | 160 | 88 | 66 | 82 | 118 | 164 | 1,156 | |
| Dealing profits | 96 | 43 | 12 | 109 | 60 | 24 | 33 | 65 | 83 | 525 | |
| Other operating income | 7 | (7) | 4 | 13 | 65 | – | 3 | 12 | 7 | 104 | |
| Net revenue | 1,358 | 488 | 236 | 682 | 468 | 234 | 315 | 443 | 529 | 4,753 | |
| Costs | (626) | (212) | (136) | (430) | (218) | (91) | (144) | (283) | (390) | (2,530) | |
| Amortisation of goodwill | | | | | | | | | (134) | (134) | |
| Total operating expenses | (626) | (212) | (136) | (430) | (218) | (91) | (144) | (283) | (524) | (2,664) | |
| Operating profit before provisions | 732 | 276 | 100 | 252 | 250 | 143 | 171 | 160 | 5 | 2,089 | |
| Charge for debts, contingent liabilities and commitments | (305) | (33) | 2 | (99) | (60) | (2) | 4 | (9) | (34) | (536) | |
| Amounts written off fixed assets investments | – | – | – | – | (4) | – | – | – | (7) | (11) | |
| Profit before taxation | 427 | 243 | 102 | 153 | 186 | 141 | 175 | 151 | (36) | 1,542 | |
| Loans and advances to customers – average | 21,428 | 8,624 | 4,329 | 6,675 | 2,811 | 1,929 | 3,328 | 1,416 | 7,249 | 57,789 | |
| Net interest margin (%) | 2.4 | 1.8 | 2.5 | 2.4 | 4.0 | 3.4 | 3.8 | 6.7 | 0.8 | 2.8 | |
| Loans and advances to customers – period end | 20,845 | 9,781 | 5,009 | 7,124 | 3,106 | 2,110 | 3,484 | 1,739 | 6,546 | 59,744 | |
| Loans and advances to banks – period end | 2,113 | 1,045 | 204 | 2,784 | 239 | 605 | 889 | 308 | 5,167 | 13,354 | |
| Total assets employed | 39,396 | 15,750 | 6,677 | 16,759 | 7,591 | 4,963 | 5,466 | 4,558 | 38,355 | 139,515 | |
| Total risk weighted assets and contingents | 19,438 | 12,423 | 4,018 | 8,569 | 4,560 | 3,234 | 4,138 | 2,115 | 22,019 | 80,514 | |

Total interest receivable and total interest payable include intra-group interest of \$932 million. Total assets employed include intra-group items of \$11,726 million and balances of \$7,507 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include \$2,352 million of balances which are netted in the note on Capital ratios on page 39 in accordance with regulatory guidelines.

Group central expenses and other overhead costs 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. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment.

The geographic segment is based on the location of the office.

40. Segmental Information continued

By Geographic Segment

| | Asia Pacific | | | | | MESA | | | Americas, UK & Group Head Office | | Total \$million |
|--|---------------------|---------------------|--------------------|------------------------------|-----------------|---------------|--|------------------|----------------------------------|----------------|-----------------|
| | Hong Kong \$million | Singapore \$million | Malaysia \$million | Other Asia Pacific \$million | India \$million | UAE \$million | Other Middle East & Other South Asia \$million | Africa \$million | Head Office \$million | | |
| Interest receivable | 1,718 | 780 | 349 | 789 | 597 | 264 | 374 | 316 | 1,541 | 6,728 | |
| Interest payable | (641) | (421) | (181) | (427) | (369) | (115) | (204) | (113) | (1,194) | (3,665) | |
| Net interest income | 1,077 | 359 | 168 | 362 | 228 | 149 | 170 | 203 | 347 | 3,063 | |
| Fees and commissions receivable, net | 267 | 80 | 52 | 135 | 85 | 59 | 60 | 89 | 164 | 991 | |
| Dealing profits | 68 | 31 | 15 | 73 | 43 | 18 | 40 | 37 | 95 | 420 | |
| Other operating income | 4 | 15 | (1) | 2 | 38 | – | 5 | 3 | (1) | 65 | |
| Net revenue | 1,416 | 485 | 234 | 572 | 394 | 226 | 275 | 332 | 605 | 4,539 | |
| Costs | (622) | (209) | (143) | (406) | (190) | (77) | (119) | (228) | (407) | (2,401) | |
| Amortisation of goodwill | | | | | | | | | (156) | (156) | |
| Total operating expenses | (622) | (209) | (143) | (406) | (190) | (77) | (119) | (228) | (563) | (2,557) | |
| Operating profit before provisions | 794 | 276 | 91 | 166 | 204 | 149 | 156 | 104 | 42 | 1,982 | |
| Charge for debts, contingent liabilities and commitments | (428) | (41) | (13) | (61) | (38) | (8) | (5) | (3) | (115) | (712) | |
| Amounts written off fixed asset investments | – | – | – | – | – | – | – | – | (8) | (8) | |
| Profit before taxation | 366 | 235 | 78 | 105 | 166 | 141 | 151 | 101 | (81) | 1,262 | |
| Loans and advances to customers – average | 21,121 | 7,534 | 3,808 | 5,952 | 2,186 | 1,422 | 2,947 | 1,042 | 8,451 | 54,463 | |
| Net interest margin (%) | 3.0 | 2.3 | 2.6 | 2.3 | 4.2 | 4.1 | 3.4 | 6.9 | 1.0 | 3.1 | |
| Loans and advances to customers – period end | 21,313 | 8,060 | 4,201 | 6,390 | 2,458 | 1,737 | 3,146 | 1,168 | 8,536 | 57,009 | |
| Loans and advances to banks – period end | 2,507 | 2,027 | 394 | 2,703 | 212 | 1,062 | 730 | 218 | 6,148 | 16,001 | |
| Total assets employed | 41,143 | 17,387 | 6,732 | 16,295 | 6,411 | 5,096 | 5,304 | 3,880 | 42,327 | 144,575 | |
| Total risk weighted assets and contingents | 19,958 | 11,570 | 3,724 | 7,512 | 4,367 | 2,647 | 4,062 | 1,556 | 20,430 | 75,826 | |

Total interest receivable and total interest payable include intra-group interest of \$1,440 million. Total assets employed include intra-group items of \$25,931 million and balances of \$5,691 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include \$1,272 million of balances which are netted in the note on Capital ratios on page 39 in accordance with regulatory guidelines.

Group central expenses and other overhead costs 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.

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

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment.

The geographic segment is based on the location of the office.

40. Segmental Information continued

By Class of Business

| | 2003 | | | 2002* | | |
|---|-------------------------------|--------------------------------|--------------------|-------------------------------|--------------------------------|--------------------|
| | Consumer Banking \$million | Wholesale Banking \$million | Total \$million | Consumer Banking \$million | Wholesale Banking \$million | Total \$million |
| Net interest income | 1,830 | 1,138 | 2,968 | 1,867 | 1,196 | 3,063 |
| Other income | 662 | 1,123 | 1,785 | 549 | 927 | 1,476 |
| Net revenue | 2,492 | 2,261 | 4,753 | 2,416 | 2,123 | 4,539 |
| Costs | (1,274) | (1,256) | (2,530) | (1,190) | (1,211) | (2,401) |
| Amortisation of goodwill | | | (134) | | | (156) |
| Total operating expenses† | (1,274) | (1,256) | (2,664) | (1,190) | (1,211) | (2,557) |
| Operating profit before provisions | 1,218 | 1,005 | 2,089 | 1,226 | 912 | 1,982 |
| Charge for debts, contingent liabilities, and commitments | (478) | (58) | (536) | (603) | (109) | (712) |
| Amount written off fixed asset investments | - | (11) | (11) | - | (8) | (8) |
| Profit before taxation | 740 | 936 | 1,542 | 623 | 795 | 1,262 |
| Total assets employed | 33,925 | 86,357 | 120,282 | 32,175 | 80,778 | 112,953 |
| Total risk weighted assets and contingents | 24,253 | 53,909 | 78,162 | 23,779 | 50,775 | 74,554 |

† Total operating expenses include \$134 million (2002: \$156 million) amortisation of goodwill. This cost is a result of global projects managed from the centre and corporate decisions made at the centre and has not been attributed to business segments.

* Prior period has been restated to net down intra group items. Please also refer to note 52 on page 111.

For the segmental information given above, Group central expenses and other overhead costs have been distributed between classes of business in proportion to their direct costs and the benefit of the Group's capital has been distributed between classes of business in proportion to their risk weighted assets. Assets held at the centre have been distributed between classes of businesses in proportion to their total assets employed.

41. Secured Liabilities

| | 2003 \$million | 2002 \$million |
|--------------------------------|-------------------|-------------------|
| Notes in circulation (note 31) | 2,249 | 2,015 |

The notes in circulation were secured by the deposit of funds of \$2,249 million (2002: \$2,015 million) in respect of which Hong Kong SAR Government certificates of indebtedness are held (note 31).

42. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

| | 2003 \$million | 2002 \$million |
|----------------|-------------------|-------------------|
| Contracted | 4 | 12 |
| Not contracted | 5 | 27 |

43. Assets and Liabilities in Currencies other than US dollar

| | 2003 \$million | 2002* \$million |
|-----------------------------------|-------------------|--------------------|
| Total assets denominated in: | | |
| US dollar | 33,674 | 51,022 |
| Other currencies | 86,608 | 61,931 |
| | 120,282 | 112,953 |
| Total liabilities denominated in: | | |
| US dollar | 41,337 | 46,051 |
| Other currencies | 78,945 | 66,902 |
| | 120,282 | 112,953 |

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

44. 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's guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Contract or underlying principal amount \$million | Credit equivalent amount \$million | Risk weighted amount \$million | Contract or underlying principal amount \$million | Credit equivalent amount \$million | Risk weighted amount \$million |
| Contingent liabilities | | | | | | |
| Acceptances and endorsements | 716 | 716 | 535 | 897 | 897 | 854 |
| Guarantees and irrevocable letters of credit | 12,350 | 8,480 | 5,773 | 12,199 | 8,374 | 6,102 |
| Other contingent liabilities | 4,802 | 3,364 | 2,132 | 4,817 | 3,371 | 2,281 |
| | 17,868 | 12,560 | 8,440 | 17,913 | 12,642 | 9,237 |
| Commitments | | | | | | |
| Documentary credits and short term trade-related transactions | 2,157 | 431 | 394 | 1,690 | 338 | 295 |
| Forward asset purchases and forward deposits placed | 26 | 26 | 5 | 21 | 21 | 4 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | | | | |
| One year and over | 7,182 | 3,591 | 3,259 | 8,125 | 4,063 | 3,399 |
| Less than one year | 5,203 | - | - | 5,152 | - | - |
| Unconditionally cancellable | 26,589 | - | - | 28,815 | - | - |
| | 41,157 | 4,048 | 3,658 | 43,803 | 4,422 | 3,698 |

Under the Basel Accord, credit equivalent amounts, obtained by applying credit conversion factors to the contract amount, are risk weighted according to the nature of the counterparty. Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

45. Fair Values

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Positive and negative fair values are the mark-to-market values of the derivative contracts adjusted for any amounts recognised in the Consolidated Profit and Loss Account for non-trading items. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Fair values at the period end are representative of the Group's typical position during the period.

Trading activities are defined as positions held in financial instruments with the intention of benefiting from short term rates or price movements.

The risk section of the Financial Review on pages 27 to 38 explains the Group's risk management of derivative contracts.

| | Notional principal amounts \$million | Positive fair value \$million | 2003 | | Notional principal amounts \$million | Positive fair value \$million | Negative fair value \$million |
|--|---|----------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|
| | | | Positive fair value \$million | Negative fair value \$million | | | |
| Trading book | | | | | | | |
| Forward foreign exchange contracts | 405,983 | 8,936 | 8,535 | | 340,334 | 5,623 | 5,548 |
| Foreign exchange derivative contracts | | | | | | | |
| Currency swaps and options | 124,138 | 1,875 | 1,931 | | 96,940 | 1,108 | 1,252 |
| Exchange traded futures and options | 327 | – | – | | – | – | – |
| Total | 124,465 | 1,875 | 1,931 | | 96,940 | 1,108 | 1,252 |
| Interest rate derivative contracts | | | | | | | |
| Swaps | 253,359 | 2,834 | 2,941 | | 188,313 | 2,926 | 2,653 |
| Forward rate agreements and options | 61,506 | 89 | 81 | | 28,335 | 108 | 91 |
| Exchange traded futures and options | 108,995 | 24 | 27 | | 39,834 | 25 | 36 |
| Total | 423,860 | 2,947 | 3,049 | | 256,482 | 3,059 | 2,780 |
| Total trading book derivative financial instruments | 954,308 | 13,758 | 13,515 | | 693,756 | 9,790 | 9,580 |
| Effect of netting | | (7,507) | (7,507) | | | (5,691) | (5,691) |
| | | 6,251 | 6,008 | | | 4,099 | 3,889 |

Non-trading activities are defined as positions held with respect to management of the Group's assets and liabilities and related hedges.

| | Notional principal amounts \$million | Positive fair value \$million | 2003 | | Notional principal amounts \$million | Positive fair value \$million | Negative fair value \$million |
|--|---|----------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|
| | | | Positive fair value \$million | Negative fair value \$million | | | |
| Non-trading book | | | | | | | |
| Forward foreign exchange derivative contracts | | | | | | | |
| Currency swaps and options | – | – | – | | 524 | 2 | – |
| Interest rate derivative contracts | | | | | | | |
| Swaps | 28 | – | 2 | | 1,313 | – | 2 |
| Forward rate agreements and options | 92 | – | – | | 181 | 2 | 1 |
| Exchange traded futures and options | 2,634 | 2 | 1 | | 2,231 | 2 | 1 |
| Total | 2,754 | 2 | 3 | | 3,725 | 4 | 4 |
| Commodity derivative contracts | 866 | 1 | 1 | | 1,812 | 14 | 14 |
| Total non-trading book derivative financial instruments | 3,620 | 3 | 4 | | 6,061 | 20 | 18 |

45. Fair Values continued

| | Book value \$million | 2003 Market value \$million | Book value \$million | 2002 Market value \$million |
|---|-------------------------|-----------------------------------|-------------------------|-----------------------------------|
| Listed and publicly traded securities: | | | | |
| Financial assets | 17,542 | 17,548 | 16,337 | 16,451 |
| Preference shares | 650 | 768 | 632 | 753 |
| Other financial liabilities | 10,760 | 10,965 | 9,710 | 9,478 |
| Financial liabilities | 11,410 | 11,733 | 10,342 | 10,231 |

Financial assets include treasury bills, debt securities and equity shares. Other financial liabilities include debt securities in issue and subordinated loan capital.

46. Credit Exposures in respect of Derivative Contracts

The residual maturity analysis of the notional principal amounts of derivative contracts, excluding exchange traded futures and options, held at 31 December 2003 and 2002 for trading and non-trading purposes is set out below:

| | Under one year \$million | One to five years \$million | Over five years \$million | 2003 Total \$million | Under one year \$million | One to five years \$million | Over five years \$million | 2002 Total \$million |
|---|-----------------------------|--------------------------------|------------------------------|----------------------------|-----------------------------|--------------------------------|------------------------------|----------------------------|
| Forward foreign exchange and foreign exchange derivative contracts | | | | | | | | |
| Notional principal amount | 488,667 | 37,075 | 4,379 | 530,121 | 415,839 | 18,589 | 3,370 | 437,798 |
| Net replacement cost | 9,581 | 1,091 | 139 | 10,811 | 6,294 | 360 | 79 | 6,733 |
| Interest rate derivative contracts | | | | | | | | |
| Notional principal amount | 166,138 | 119,008 | 29,839 | 314,985 | 120,843 | 77,219 | 20,080 | 218,142 |
| Net replacement cost | 474 | 1,520 | 929 | 2,923 | 578 | 1,490 | 968 | 3,036 |
| Commodity derivative contracts | | | | | | | | |
| Notional principal amount | 445 | 421 | – | 866 | 943 | 869 | – | 1,812 |
| Net replacement cost | – | 1 | – | 1 | 3 | 11 | – | 14 |
| Counterparty risk | | | | | | | | |
| Financial institutions | | | | 12,901 | | | | 9,034 |
| Non financial institutions | | | | 834 | | | | 749 |
| Total replacement cost | | | | 13,735 | | | | 9,783 |

The risk section of the Financial Review on pages 27 to 38 explains the Group's risk management of derivative contracts.

47. Interest Rate Sensitivity Gap for the Non-Trading Book

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

| | Non-trading book | | | | | | 2003 | |
|--|-----------------------------------|--|--|--|-----------------------------------|-----------------------------------|---------------------------|--------------------|
| | Three months or less \$million | Between three months and six months \$million | Between six months and one year \$million | Between one year and five years \$million | More than five years \$million | Non-interest bearing \$million | Trading book \$million | Total \$million |
| Assets | | | | | | | | |
| Cash, balances at central banks and cheques in course of collection | 380 | – | – | – | – | 1,602 | – | 1,982 |
| Treasury bills and other eligible bills | 3,350 | 1,311 | 589 | 283 | – | – | 156 | 5,689 |
| Loans and advances to banks | 8,312 | 2,124 | 1,285 | 459 | 199 | 631 | 344 | 13,354 |
| Loans and advances to customers | 44,713 | 5,684 | 2,065 | 4,827 | 2,220 | – | 235 | 59,744 |
| Debt securities and equity shares | 7,233 | 3,026 | 3,522 | 6,188 | 795 | 396 | 2,340 | 23,500 |
| Other assets | 21 | – | 170 | 241 | 8 | 7,397 | 8,176 | 16,013 |
| Total assets | 64,009 | 12,145 | 7,631 | 11,998 | 3,222 | 10,026 | 11,251 | 120,282 |
| Liabilities | | | | | | | | |
| Deposits by banks | 7,258 | 752 | 801 | 450 | 19 | 1,535 | 109 | 10,924 |
| Customer accounts | 58,229 | 3,072 | 2,640 | 758 | 2 | 9,045 | 21 | 73,767 |
| Debt securities in issue | 2,264 | 562 | 1,070 | 1,782 | 99 | – | 285 | 6,062 |
| Other liabilities | 184 | 11 | 167 | 247 | 6 | 7,095 | 7,523 | 15,233 |
| Subordinated liabilities | – | – | – | 337 | 5,677 | (47) [†] | – | 5,967 |
| Minority interests and shareholders' funds | – | – | – | – | – | 8,329 | – | 8,329 |
| Total liabilities | 67,935 | 4,397 | 4,678 | 3,574 | 5,803 | 25,957 | 7,938 | 120,282 |
| Off balance sheet items | 2,184 | (464) | (1,523) | (197) | – | – | – | – |
| Interest rate sensitivity gap | (1,742) | 7,284 | 1,430 | 8,227 | (2,581) | (15,931) | – | – |
| Cumulative gap | (1,742) | 5,542 | 6,972 | 15,199 | 12,618 | (3,313) | – | – |

[†] Unamortised discounts on the issue of subordinated loan capital.

The risk section of the Financial Review on pages 27 to 38 explains the Group's risk management with respect to asset and liability management.

47. Interest Rate Sensitivity Gap for the Non-Trading Book continued

2002*

| | Non-trading book | | | | | | Trading book \$million | Total \$million |
|---|-----------------------------------|--|--|--|-----------------------------------|-----------------------------------|---------------------------|--------------------|
| | Three months or less \$million | Between three months and six months \$million | Between six months and one year \$million | Between one year and five years \$million | More than five years \$million | Non-interest bearing \$million | | |
| Assets | | | | | | | | |
| Cash, balances at central banks and cheques in course of collection | 458 | – | – | – | – | 779 | – | 1,237 |
| Treasury bills and other eligible bills | 2,826 | 1,115 | 943 | 59 | 22 | – | 85 | 5,050 |
| Loans and advances to banks | 10,731 | 2,540 | 1,463 | 277 | 135 | 619 | 236 | 16,001 |
| Loans and advances to customers | 45,055 | 4,656 | 2,939 | 3,113 | 1,143 | – | 103 | 57,009 |
| Debt securities and equity shares | 7,510 | 3,503 | 2,120 | 4,654 | 627 | 711 | 1,255 | 20,380 |
| Other assets | 75 | 2 | 311 | 11 | 3 | 7,665 | 5,209 | 13,276 |
| Total assets | 66,655 | 11,816 | 7,776 | 8,114 | 1,930 | 9,774 | 6,888 | 112,953 |
| Liabilities | | | | | | | | |
| Deposits by banks | 8,479 | 579 | 569 | 275 | – | 574 | 374 | 10,850 |
| Customer accounts | 57,579 | 3,025 | 2,686 | 1,645 | – | 6,578 | 113 | 71,626 |
| Debt securities in issue | 1,914 | 416 | 539 | 1,608 | 189 | – | 211 | 4,877 |
| Other liabilities | 171 | 1 | 221 | 111 | 50 | 6,304 | 5,768 | 12,626 |
| Subordinated liabilities | – | – | – | 338 | 5,165 | (48) [†] | – | 5,455 |
| Minority interests and shareholders' funds | – | – | – | – | – | 7,519 | – | 7,519 |
| Total liabilities | 68,143 | 4,021 | 4,015 | 3,977 | 5,404 | 20,927 | 6,466 | 112,953 |
| Off balance sheet items | 1,237 | (337) | (1,014) | 114 | – | – | – | – |
| Interest rate sensitivity gap | (251) | 7,458 | 2,747 | 4,251 | (3,474) | (11,153) | 422 | – |
| Cumulative gap | (251) | 7,207 | 9,954 | 14,205 | 10,731 | (422) | – | – |

[†]Unamortised discounts on the issue of subordinated loan capital.

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

48. Non-Structural Currency Exposures

The Group does not maintain material non-trading open currency positions other than the structural currency exposures arising from its investment in overseas operations and their related funding (see note 49).

The risk section of the Financial Review on page 38 explains risk management with respect to the Group's hedging policies.

49. Structural Currency Exposures

The Group's structural currency exposures were as follows:

| | | | 2003 | | 2002 | |
|---|---|--|--|---|--|--|
| | Net investments in overseas units \$million | Borrowing in the functional currency of the units concerned hedging the net investment in the units \$million | Structural currency exposures \$million | Net investments in overseas units \$million | Borrowing in the functional currency of the units concerned hedging the net investment in the units \$million | Structural currency exposures \$million |
| Functional currency of the business unit: | | | | | | |
| Singapore Dollar | 9 | – | 9 | 49 | – | 49 |
| Indian Rupee | 482 | – | 482 | 459 | – | 459 |
| Hong Kong Dollar | (1) | – | (1) | (32) | – | (32) |
| Malaysian Ringgit | 428 | – | 428 | 428 | – | 428 |
| Thai Baht | (1) | – | (1) | 27 | – | 27 |
| UAE Dirham | 241 | – | 241 | 170 | – | 170 |
| Sterling | 842 | (832) | 10 | 1,593 | (1,542) | 51 |
| Other non US dollar | 1,038 | – | 1,038 | 799 | – | 799 |
| Total | 3,038 | (832) | 2,206 | 3,493 | (1,542) | 1,951 |

Structural currency exposures for 2003 and 2002 relate to net investments in non US dollar units.

In the years ended 31 December 2003 and 2002, the Group's main operations in non US dollar units were Asia, Africa, India and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore include Hong Kong Dollar, Indian Rupee, Malaysian Ringgit, Singapore Dollar and Sterling. As the Group prepares its consolidated financial statements in US dollars, it follows that the Group's consolidated

balance sheet is affected by movements in the exchange rates between functional currencies and US dollars.

These currency exposures are referred to as structural. Translation gains and losses arising from these exposures are recognised in the Consolidated Statement of Total Recognised Gains and Losses.

The risk section of the Financial Review on page 38 explains the risk management with respect to the Group's hedging policies.

50. Market Risk

| Trading book | 2003 | | | | 2002* | | | |
|-----------------------|--------------------------|-------------------|------------------|---------------------|--------------------------|-------------------|------------------|---------------------|
| | 12 months to 31 December | | | 31 December | 12 months to 31 December | | | 31 December |
| | Average \$million | High \$million | Low \$million | Actual \$million | Average \$million | High \$million | Low \$million | Actual \$million |
| Daily value at risk: | | | | | | | | |
| Interest rate risk | 2.7 | 4.0 | 1.8 | 2.9 | 2.6 | 6.0 | 1.6 | 1.6 |
| Foreign exchange risk | 1.6 | 3.8 | 0.9 | 1.3 | 1.9 | 2.6 | 1.0 | 1.1 |
| Total | 3.4 | 6.7 | 2.0 | 3.2 | 4.5 | 8.6 | 2.6 | 2.7 |

*Restated for change in methodology from variance-covariance methodology to historical simulation.

This note should be read in conjunction with the market risk section of the Financial Review on pages 27 to 38 which explains the Group's market risk management.

50. Market Risk continued

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using VaR methodology. This methodology measures the estimated potential change in the market value of the portfolio during a specified period.

The Group Trading book exposure shown in the table on page 109 for 2003 is not a sum of the interest rate and exchange rate risks due to offset. In 2002 no offset was recognised. 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 only likely to be experienced six times per year.

The historic simulation method is used with an observation period of 250 days 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. This entails building a set of valuations of the portfolio and a set of changes in value relative to the current market valuation, from which VaR can be derived.

The Group recognises that there are limitations to the generic VaR methodology. These limitations include the fact that the historical data may not be the best proxy for future price movements, either because the observation period does not include extreme price movements or, in some cases, because data is not available. 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. This is particularly relevant in the case of extreme market movements, which may arise in periods of low liquidity and invalidate the assumption that positions can be closed in a liquid market. 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. 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.

To manage the risk arising from events which the VaR methodology does not capture, the Group regularly stress tests its main 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 Group Risk Committee.

51. Hedging Instruments – Unrecognised Gains and Losses on Derivative Hedges

Gains and losses on derivatives used for hedging are recognised and reported in the profit and loss account and balance sheet in line with the underlying items which are being hedged. At 31 December 2003, the unrecognised gains and losses on derivatives used for hedging where the item being hedged had not been recognised were \$3 million and \$4 million respectively.

| | 2003 | | | | | 2002 |
|---|--------------------|---------------------|-------------------------------------|--------------------|---------------------|-------------------------------------|
| | Gains \$million | Losses \$million | Net gains/ (losses) \$million | Gains \$million | Losses \$million | Net gains/ (losses) \$million |
| Unrecognised gains and losses at 1 January | 20 | 18 | 2 | 41 | 47 | (6) |
| Exchange translation differences | 1 | 1 | – | – | – | – |
| Gains and losses arising in previous years recognised in the year | (18) | (15) | (3) | (26) | (31) | 5 |
| Gains and losses arising in the year but not recognised | – | – | – | 5 | 2 | 3 |
| Unrecognised gains and losses at 31 December | 3 | 4 | (1) | 20 | 18 | 2 |
| Of which: | | | | | | |
| Gains and losses expected to be recognised within one year | 2 | 1 | 1 | 4 | 4 | – |
| Gains and losses expected to be recognised in more than one year | 1 | 3 | (2) | 16 | 14 | 2 |
| | 3 | 4 | (1) | 20 | 18 | 2 |

52. Restatement of Comparative Figures

The Urgent Issues Task Forces issued abstract 38 (UITF 38) – Accounting for ESOP Trusts in December 2003. This abstract required that when a company reacquires its own equity instruments it should present this as a deduction in arriving at shareholders' funds rather than as assets. For the Group's consolidated accounts the amount reported in Equity shares and other variable yield securities in 2002 has been reduced by \$57 million and shareholders' funds has been reduced by \$57 million to reflect this change in disclosure.

For the Company's accounts, the investment in subsidiary undertakings is reduced by \$57 million to reflect the reduction in equitisation and shareholders' funds has been reduced by \$57 million.

The Group's £200 million Step-Up Notes 2022 (\$346 million) have been reclassified from undated to dated subordinated loan capital to incorporate callable options in place.

53. Forward Looking Statements

This document contains forward-looking statements, including such statements within the meaning of section 27A of the US Securities Act of 1993 and section 21E of the Securities Exchange Act of 1934. These statements concern or may affect future matters. These may include Standard Chartered's future strategies, business plans, and results and are based on the current expectations of the directors of Standard Chartered. They are subject to a number of risks and uncertainties that might cause actual results and outcomes to differ materially from expectations outlined in these forward-looking statements. These factors are not limited to regulatory developments but include stock markets, IT developments, competitive and general operating conditions.

54. UK and Hong Kong Accounting Requirements

The consolidated financial statements of the Group are prepared in accordance with UK GAAP which differs in certain significant respects from Hong Kong GAAP. There would be no material differences between the accounting conventions except as set out below:

Investments in Securities

UK GAAP

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis are classified as investment securities. Investment securities are stated at cost less any provision for impairment. Where dated investment securities are purchased at a premium or a discount, these premiums or discounts are amortised through the profit and loss account. Securities other than investment securities are classified as dealing securities and are stated at market value.

Hong Kong GAAP

Under Hong Kong Statement of Accounting Practice 24 – Accounting for Investments in Securities (SSAP24), investment securities classified as held-to-maturity securities are stated at amortised cost less any provision for diminution in value. Other securities, not intended to be held until maturity, are accounted for under the 'alternative' treatment. Under the alternative treatment securities are identified as either trading or non-trading. Trading securities are stated at fair value with changes in fair value recognised in the profit and loss account as they arise. Non-trading securities are stated at fair value with changes in fair value recognised in the revaluation reserve until disposal.

If the Group had prepared its financial statements under Hong Kong SAAP24 there would have been a net charge to the profit and loss account of \$5 million (2002: \$20 million), an increase in investment in securities of \$30 million (2002: increase of \$60 million) and a credit to reserves of \$21 million (2002: credit of \$42 million).

Tangible Fixed Assets

UK GAAP

Under Financial Reporting Standard 15 – Tangible Fixed Assets (FRS15), revaluation gains should be recognised in the profit and loss account only to the extent (after adjusting for subsequent depreciation) that they reverse revaluation losses on the same asset that were previously recognised in the profit and loss account. All other revaluation gains should be recognised in the statement of total recognised gains and losses.

54. UK and Hong Kong Accounting Requirements continued

All revaluation losses that are caused by a clear consumption of economic benefits should be recognised in the profit and loss account. Other revaluation losses should be recognised:

- in the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost; and
- thereafter, in the profit and loss account unless it can be demonstrated that the recoverable amount (the higher of net realisable value and value in use as defined in Financial Reporting Standard 11 – Impairment of fixed assets and goodwill) of the asset is greater than the revalued amount, in which case the loss should be recognised in the statement of recognised gains and losses to the extent that the recoverable amount of the asset is greater than its revalued amount.

Hong Kong GAAP

Under Hong Kong SSAP17– Property, Plant and Equipment, when an asset's carrying amount is increased as a result of revaluation, the increase should be credited directly to equity under the heading of revaluation reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any excess thereafter will be charged to the profit and loss account.

At 31 December 2003, the Group's total properties comprised less than one per cent of the Group's total assets. A formal revaluation of certain of the Group's principal properties was performed at 31 August 2002, and at 30 September 2002 for all other properties, by independent valuers.

If the Group had prepared its financial statements under Hong Kong SSAP17 there would have been a net charge to the profit and loss account of \$15 million (2002: \$80 million) in respect of valuations below depreciated historical cost.

Dividends

UK GAAP

Dividends declared after the period end are recognised as a liability in the period to which they relate.

Hong Kong GAAP

Under Hong Kong SSAP9 (revised) – Events after the balance sheet date which is effective for accounting periods beginning on or after 1 January 2001, dividends are only recognised as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

The retained profit for the year ended 31 December 2003 would be increased by \$44 million (2002: increase \$56 million) had the Company adopted Hong Kong SSAP9 (revised), and there would have been an increase in reserves of \$429 million (2002: increase \$385 million).

Cash Flow Statement

UK GAAP

The Group prepares its cash flow statement in accordance with Financial Reporting Standard 1 – Cash flow statements (FRS1). FRS1 is based on cash, with no concept of cash equivalents. Cash is defined as cash in hand and deposits with qualifying financial institutions repayable on demand, less overdrafts from such institutions repayable on demand.

Hong Kong GAAP

Under Hong Kong SSAP15 – Cash flow statements (Revised 2001) the statement is based on a wider concept of cash and cash equivalents. Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Hong Kong SSAP15 also specifies that bank borrowings are generally considered to be financing activities. However, bank overdrafts repayable on demand which form an integral part of an enterprise's Cash Management are included as a component of cash and cash equivalents.

In addition, Hong Kong SSAP15 is different from FRS1 in respect of the presentation/classification of the cash flow statement. Hong Kong SSAP15 classifies cash flows under three headings: (a) cash flows from operating activities; (b) cash flows from investing activities; and (c) cash flows from financing activities. FRS1 specifies a fuller analysis using eight headings: (a) cash flows from operating activities; (b) dividends from joint ventures and associates; (c) returns on investment and servicing of finance; (d) taxation; (e) capital expenditure and financial investment; (f) acquisitions and disposals; (g) equity dividends paid and (h) financing.

Retirement Benefits

UK GAAP

Background

Financial Reporting Standard 17 – Retirement benefits (FRS17) was published by the Accounting Standards Board in December 2000 to replace United Kingdom SSAP24 – Accounting for pension costs.

Currently UK SSAP24 is still applicable although additional disclosure is required under the transitional provisions in FRS17.

Hong Kong GAAP

Hong Kong SSAP34 – Employment benefits has been published by the Hong Kong Society of Accountants in December 2001 and is effective for periods beginning on or after 1 January 2002. Hong Kong SSAP34 contains transitional provisions which are applicable only to defined benefit plans. Hong Kong SSAP34 requires the defined benefit pension scheme assets to be measured at fair value at the balance sheet date. Hong Kong SSAP34 requires actuarial gains and losses to be recognised in the profit and loss account if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of ten per cent of the present value of the defined benefit obligation at that date (before deducting plan assets) and ten per cent of the fair value of any plan assets at that date. These limits should be calculated and applied separately for each defined benefit plan. Actuarial gains and losses falling outside this ten per cent 'corridor' may be recognised in the profit and loss account over the average remaining working lives of participating employees. However, recognition on a fast systematic basis is permitted if consistently applied. In addition, Hong Kong SSAP34 does not allow the balance sheet asset or liability to be offset by the related deferred tax.

The Group has not quantified, on practical grounds, the differences arising from the different treatments between Hong Kong GAAP and UK GAAP for retirement benefits. In order to quantify the differences, the Group would need to examine approximately 50 different retirement benefit schemes operating throughout the world during the period. Additionally, the Group has already provided disclosures under two accounting standards (UK SSAP24 and FRS17). Full compliance with a third standard (Hong Kong SSAP34) would be costly in terms of commissioning a third actuarial review, the results of which the Group do not believe would be materially different from those obtained under the FRS17 disclosures.

Deferred taxation

UK GAAP

Under Financial Reporting Standard 19 – Deferred tax, deferred taxation is provided in full, subject to the recoverability of deferred tax assets, arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements, on timing differences at the rates of taxation anticipated to apply when the differences crystallise.

Hong Kong GAAP

Under Statement of Standard Accounting Practice 12 (revised) – Accounting for deferred tax, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis are recognised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The deferred tax asset balance would be decreased by \$24 million at 31 December 2003 (2002: \$25 million) and the deferred tax liability balance would be increased by \$nil at 31 December 2003 (2002: \$nil). The profit and loss reserves balance would be decreased by \$8 million (2002: \$9 million) and the premises revaluation reserve would be decreased by \$16 million at 31 December 2003 (2002: \$16 million).