

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

This report has been prepared in accordance with the principles and provisions of the Code of Best Practice in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the 'Combined Code'). The directors confirm that the Company complies with the principles of the Combined Code except that meeting major shareholders is not currently part of the induction programme for non-executive directors and that evaluation of the performance of the Board and its committees was not carried out during 2004. Explanations of these exceptions are given in the sections on Independent Non-executive Directors and Performance Evaluation, below. Apart from the exceptions mentioned above, the following report explains how the Company applies the principles of the Combined Code.

The Company is a public company, listed on both the London and Hong Kong stock exchanges, and has sufficient share capital in public hands.

The directors confirm that, throughout the financial year, the Company complied with the provisions of Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong (the 'HK Listing Rules').

The directors confirm that Mrs A A Snow is the Company's qualified accountant for the purposes of Rule 3.24 of the HK Listing Rules.

The directors confirm that the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the HK Listing

Rules and that directors of the Company complied with this code of conduct throughout the financial period.

## The Board

The Board is made up of the Chairman, six executive directors and nine independent non-executive directors and is collectively responsible for the success of the Company. All the directors are subject to election by shareholders at the first Annual General Meeting (AGM) after their appointment and then to re-election at intervals of no more than three years.

The Board meets regularly and has a formal schedule of matters specifically reserved for its decision. These matters include determining and reviewing the strategy of the Company and the Group, overseeing the Group's compliance with statutory and regulatory obligations, issues relating to the Company's and the Group's capital, the Group's structure and areas of operation, financial reporting, ensuring there is a sound system of internal control and risk management, and appointments to the Board. The Board delegates matters to the executive directors and other senior management.

The Board has approximately eight scheduled meetings each year. Two of these meetings are usually held in countries where the Group operates outside the United Kingdom. The directors use these overseas visits to meet staff, corporate customers, and government and regulatory officials.

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

The following table shows the number of Board and Committee meetings held during the year and the attendance of individual directors.

	Board (Scheduled)	Board (Ad hoc)	Audit & Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings in year	8	4	6	6	5
B K Sanderson	8	4	–	–	3
E M Davies	8	4	–	–	–
Sir CK Chow	7	3	–	–	–
M B DeNoma	8	4	–	–	–
J F T Dundas*	7	–	4	–	–
V F Gooding***	–	–	–	–	–
Ho KwonPing	5	1	–	5	–
C A Keljik	8	4	–	–	–
R H P Markham	6	4	6	–	3
R Markland	8	4	6	–	4
R H Meddings	8	3	–	–	–
K S Nargolwala	8	4	–	–	–
H E Norton	7	3	4	6	5
P A Sands	8	4	–	–	–
P D Skinner	8	3	–	4	–
O H J Stocken**	4	1	–	1	–

\*Appointed to the Board on 15 March 2004.

\*\*Appointed to the Board on 1 June 2004.

\*\*\*Appointed to the Board on 1 January 2005.

The directors have a range of skills and experience and each brings an independent judgement and considerable knowledge to the Board's discussions. On appointment, each director receives a full, formal, tailored induction covering the Group's business and operations and also the legal, regulatory and other obligations of a director of a dual listed company. As well as formal induction, directors receive training through a formal and structured programme to continually develop and update their knowledge and capabilities. Where an independent non-executive director is appointed to one of the Board's standing committees, additional training is given which is relevant to the committee appointment.

The independent non-executive directors appointed during 2004 have completed their induction programmes.

The Company has arranged appropriate insurance cover in respect of legal proceedings and other claims against its directors.

The Board's executive directors are not allowed more than one non-executive directorship of a FTSE 100 company.

During the year, the Chairman of the Board, Mr B K Sanderson, stepped down as chairman of Sunderland PLC, but remained as a non-executive director, Mr E M Davies was appointed as a non-executive director of Tottenham Hotspur plc and Mr K S Nargolwala was appointed as a non-executive director of Tate & Lyle PLC. Details of the directors' other directorships can be found on pages 44 to 45.

### Chairman and Group Chief Executive

The roles and objectives of the Chairman, Mr B K Sanderson, and the Group Chief Executive, Mr E M Davies, are separate and have been approved by the Board.

### Independent Non-executive Directors

The Board considers that all of the non-executive directors are independent and has received from each of them the annual confirmation of independence required by the HK Listing Rules. The names and biographies of the non-executive directors are set out on page 45. The non-executive directors are appointed for specific terms and are subject to periodic re-appointment in accordance with the Company's articles of association. The Chairman has regular meetings with the non-executive directors without the executive directors being present.

The proposals for the re-election of non-executive directors who have served on the Board for more than six years are covered in the section on the work of the Board Nomination Committee below.

Mr H E Norton is the Senior Independent Director and can be contacted in writing at the Company's registered office.

Although not part of their induction programme, the non-executive directors have the opportunity to attend meetings with major shareholders and analysts and they receive, in a timely manner, accurate information reflecting the views of the Company's institutional shareholders and other stakeholders. Major shareholders are offered the opportunity to meet with the Senior Independent Director to discuss any issues or concerns.

The Board is aware of the other commitments of its non-executive directors and is satisfied that these do not conflict with their duties as directors of the Company.

Changes to the commitments of the non-executive directors are reported to the Board.

The terms and conditions of the non-executive directors' appointments are available for inspection at the Company's registered office.

### Board Committees

During 2003, an external review of the Board committee structure was carried out and in 2004, following this review, the Board appointed a separate Nomination Committee.

The Board now has three standing committees with specific delegated authorities: the Board Nomination Committee, the Board Remuneration Committee and the Audit and Risk Committee. Details of these committees and their members are given below.

### The Board Nomination Committee

The members of the Board Nomination Committee are:

Mr B K Sanderson (Chairman)	Ms R Markland
Mr R H P Markham	Mr H E Norton

All of the Committee members, with the exception of Mr Sanderson, are independent non-executive directors.

The Committee's responsibilities include:

- reviewing the structure, size and composition of the Board and making recommendations with regard to any adjustments that the Committee deems necessary to ensure the Board has the optimum balance of skills, knowledge and experience;
- where Board vacancies arise, evaluating the skill, knowledge and experience needed to fill the vacancy, and identifying and nominating suitable candidates to the Board; and
- keeping under review the succession plans for the Group relating to both directors and other senior executives and making consequential recommendations to the Board.

The Committee is also responsible for making recommendations for the appointment of the Group Chairman, Group Chief Executive or any other director. The Group Chairman will not chair any meeting at which the Committee is considering the appointment of a successor to the Group Chairman.

Significant changes to the external commitments of the Group Chairman are reported to the Board for its approval.

In the selection process for new directors, the Committee can consult external advisors and an external search consultant was used in the selection process for the three appointments detailed below.

Two independent non-executive directors were appointed during 2004, Mr J F T Dundas and Mr O H J Stocken, and a further independent non-executive director, Miss V F Gooding, was appointed in January 2005. Before recommending these appointments the Committee considered the suitability of the candidates against the skills, knowledge and experience required to produce a balanced board. In addition, the Committee took into account whether the candidates would have an appropriate amount of time to devote to their duties. The Committee considered that the candidates' respective skills would substantially contribute to the Board and unanimously recommended that the Board consider their appointment.

The Committee considered carefully the cross directorships which the Chairman and Miss Gooding would hold following her appointment to the Board and after detailed deliberation was entirely satisfied that these cross directorships would not impair Miss Gooding's independence in the conduct of her duties as a director of the Company. The Board fully debated the issue before reaching an informed decision to appoint Miss Gooding. The Chairman did not participate in the meeting of the Nomination Committee held on 2 November 2004 at which Miss Gooding's appointment and independence were considered. In addition, the Chairman did not participate in the subsequent discussions of the Board regarding her appointment and independence.

The Committee reviewed the performance of the three directors noted below and made recommendations to the Board on their re-election:

Sir CK Chow and Mr Ho KwonPing have served on the Board for more than six years and, at the 2005 AGM, will retire by rotation in accordance with the Company's articles of association, and stand for re-election. The Committee has carried out a rigorous review of the performance of these two independent non-executive directors and their contribution to the deliberations of the Board during 2004. The Committee, as part of its review, has taken into account the need for progressive refreshing of the Board and it believes that both Sir CK Chow and Mr Ho continue to be committed to the Company and independent in character and judgement. The Committee therefore fully supports the re-election of Sir CK Chow and Mr Ho as independent non-executive directors of the Company.

Mr H E Norton has served on the Board for more than nine years and at the 2005 AGM will offer himself for re-election in accordance with the provisions of the Combined Code. Having carried out a rigorous review of Mr Norton's performance and contribution to the decisions made by the Board during 2004, the Committee believes Mr Norton continues to be independent in character and judgement. In addition, taking into account the changes to the Board over the previous year, it believes that Mr Norton's long experience as a director will be invaluable to the Board in its development over the next year. The Committee therefore fully supports the proposal to re-elect Mr Norton as an independent non-executive director for a further year.

### The Board Remuneration Committee

The members of the Board Remuneration Committee are:

Mr H E Norton (Chairman)	Mr P D Skinner
Mr Ho KwonPing	Mr O H J Stocken
Ms R Markland	

All of the Committee members are independent non-executive directors. The Committee determines the pay and benefits of the Group Chairman, executive directors and senior management. The remuneration of all directors and senior management is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate.

A statement of the Company's remuneration policy for directors and details of the work of the Committee are included in the Directors' Remuneration Report on pages 54 to 67.

### The Audit and Risk Committee

The members of the Audit and Risk Committee are:

Mr R H P Markham (Chairman)	Ms R Markland
Mr J F T Dundas	Mr H E Norton

All the members of the Committee are independent non-executive directors. The Committee's chairman, Mr Markham, is a qualified accountant and has recent and relevant financial experience.

In 2003, the Committee increased the number of meetings it has each year to six. This reflects the importance the Board attaches to the role of the Committee and the amount of work it is required to carry out.

The Committee reviews and monitors the integrity of the Company's annual and interim financial statements, circulars to shareholders and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements contained in them. It keeps under review the appropriateness of the Group's accounting policies and considers changes to them. Ultimate responsibility for the approval of the annual and interim financial statements rests with the Board.

At least once a year, the Committee meets with the external auditor and Group Head of Internal Audit without other management being present to discuss matters relating to the auditor's remit and any issues arising from the audit.

In relation to the Group's internal audit function the Committee's responsibilities include:

- monitoring and assessing the role and effectiveness of the Group's internal audit function and receiving reports from the Group Head of Internal Audit on these matters; and
- considering the appointment, resignation or dismissal of the Group Head of Internal Audit.

In relation to the Group's external auditor the Committee's responsibilities include:

- considering and making recommendations to the Board on the appointment, re-appointment, resignation or dismissal of the external auditor;
- approving the terms of engagement, nature and scope of the audit;
- reviewing the findings of the audit including any major issues that arose during the course of the audit; and
- reviewing and monitoring the cost effectiveness of the audit taking into consideration relevant UK professional and regulatory requirements and approving the audit fee.

The Committee reviews the Group's internal financial controls and the Group's internal control and risk management systems and reports on these to the Board. Details of the Company's internal controls and how risk is managed can be found below under the heading 'Internal Controls'.

Arrangements have been put in place by which the Company's employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. These arrangements are covered in the Company's 'Speaking Up' policy, commonly known as a 'whistle-blowing policy'. The Audit and Risk Committee is responsible for reviewing these arrangements and for ensuring that any matters of concern are investigated.

#### **Auditor Independence and Objectivity**

The Company has adopted a policy on the use of non-audit services provided by the Company's external auditor, KPMG Audit Plc (KPMG). The Committee's pre-approval is required before the Company uses non-audit services that fall within definitions contained in the policy. The non-audit services of KPMG will only be used where the Company benefits in a cost-effective manner and the auditor maintains the necessary degree of independence and objectivity.

In addition to audit related services, KPMG provided the following types of services:

- taxation advice, including planning and compliance;
- advice and support with due diligence exercises;
- advice on IFRS accounting;
- regulatory reviews and reporting;
- anti-money laundering advice;
- corporate recovery services; and
- risk and compliance advisory services.

Details of the amounts paid to KPMG during the year for audit and non-audit services are set out in note 5 to the accounts.

#### **Terms of Reference**

The schedule of matters reserved for the Board and the terms of reference for the Board Nomination Committee, the Board Remuneration Committee and the Audit and Risk Committee are available on the Company's website and available for inspection at the Company's registered office.

#### **Independent Professional Advice**

Directors may, in appropriate circumstances, take independent professional advice at the Company's expense. All of the directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the whole Board.

The Board's standing committees are able to take independent professional advice or use external consultants, where appropriate, at the Company's expense.

#### **Performance Evaluation**

The Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors.

During 2003, an independent external consultant carried out an evaluation of the Board's effectiveness. The results of the evaluation were presented to the Chairman and the Board as a whole at the end of 2003. Due to the substantial number of changes to the Board and its committees during 2004, it was not considered appropriate to undertake an evaluation of Board or committee performance. A full and rigorous evaluation of the Board's performance and that of its committees and individual directors will be carried out during 2005.

### Relations with Shareholders

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

The Combined Code and the HK Listing Rules require companies to post the notice of the AGM to shareholders at least 20 working days before the date of the meeting. The Company aims to achieve this and will always give shareholders the 21 days' notice required by the UK Companies Act. Separate resolutions are proposed for each substantially separate issue. The Company displays the proxy voting results on each resolution at the AGM. The notice of AGM is also available on audio cassette and CD.

The Company encourages its shareholders to receive the Company's corporate documents electronically. The annual and interim financial statements, notice of AGM and dividend circulars are all available electronically. Shareholders are also able to vote electronically on the resolutions being put to the AGM.

### Going Concern

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

### Internal Control

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. To achieve this, the Board has established a process for the identification, evaluation and management of the risks faced by the Group which operated through the year ended 31 December 2004 and to 16 February 2005, the date the Board approved this annual report and accounts. It should be recognised that such a process can only provide reasonable, not absolute, assurance against material misstatement or loss. This process is reviewed regularly by the Board and meets the requirements of the guidance entitled 'Internal Control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in 1999. The system of internal control of the Group is also subject to regulatory oversight in the United Kingdom and overseas.

The Financial Review on pages 26 to 42 describes the Group's risk management structure. The Group's business is conducted within a developed control framework, underpinned by policy

statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile.

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

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

The Audit and Risk Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2004 and reported to the Board. The review was supported by an annual business self-certification process, which was managed by Group Internal Audit. The Committee has also reviewed the recommendations for provisions against bad or doubtful loans and other credit exposures.

During the year ended 31 December 2004, Standard Chartered Bank entered into a Written Agreement with the Federal Reserve Bank of New York and the New York State Banking Department to address deficiencies relating to compliance with applicable federal and state laws, rules and regulations governing anti-money laundering. Significant remediation is underway and is being closely monitored by the Board. In February 2004, the Financial Services Agency (FSA) of Japan issued Standard Chartered Bank with a Business Improvement Order (BIO) relating to Know Your Customer and Suspicious Activity Reporting. Standard Chartered Bank has communicated to the FSA of Japan that all BIO related actions are complete.

### Group Code of Conduct

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

### Corporate Responsibility and Community Committee

In February 2005, the Board established a Corporate Responsibility and Community Committee, to help align business strategy with the Group's corporate responsibility aspirations.

The Corporate Responsibility and Community Committee with the Group Chairman, Mr B K Sanderson, as its chairman, will deal with matters relating to the environment, diversity and inclusion, sponsorship, community and social investment and other corporate responsibility and community matters as it or the Board deem necessary.

### Social, Ethical and Environmental Responsibilities

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

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

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

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

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

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