

## Group Chief Executive's Review

# “Our strength, diversity and resilience and flexibility”



**Standard Chartered is making good progress. We have a clear strategy and are well positioned to take advantage of the many opportunities in our markets.**

**Standard Chartered is in good shape and we continue to deliver strong financial results. Our strategic intent is to be the world's best international bank, leading the way in Asia, Africa and the Middle East.**

We are seizing opportunities in our markets, driving value creation and actively seeking future opportunities. We are building diversity in our products so we can reach more customers, diversity in our markets so our business has a broader base, and

diversity in our people so we can have the best available talent working for us.

Our customer base has increased from seven million customers in 2003 to 12 million today. Income has increased from \$4.7 billion in 2003 to \$6.9 billion in 2005. The Group is growing rapidly, organically and through strategic alliances and acquisitions, and has expanded from 450 branches in 2003 to 1,200 today.

The scale of Standard Chartered is changing.

### **Performance**

During 2005 the Group made significant financial progress. Profit before taxation, including SC First Bank, was \$2,681 million, a 19 per cent increase from \$2,251 million in 2004. Normalised EPS saw an increase of 23 per cent to 153.7 cents and normalised return on ordinary shareholders' equity was 18.0 per cent. We intend to be known as a Group that delivers good results and also as one that is creating a robust future.

# breadth give us

## China and India

These two major economies already make a good contribution to our performance and we are excited about our future in these markets. Our network in India covers 31 cities with a combined population in excess of 76 million. India is a country with major potential, not just for Standard Chartered, but for the world economy. Though increasing competition has led to short term margin erosion in some product areas, we are confident that Standard Chartered is well positioned to realise the potential offered by this dynamic market. We have been investing in new branches, ATMs, people, infrastructure and new businesses, including launching a consumer finance business.

In China, in 2005 the income from our organic business grew over 80 per cent and we increased the number of directly employed staff by more than 40 per cent to 1,200. Our network now covers 14 cities with a combined population of over 100 million. The Consumer Banking business offers services in five out of the 10 largest cities in China, including Shanghai and Beijing. While managing a profitable business today we are also preparing for the future. Of our recent graduate intake from China, 25 per cent are currently on assignment in other countries, developing broader skills and perspectives to take back to their market in due course.

## SC First Bank, Korea

In Korea, we re-branded all 407 branches, 2,100 ATMs and seven kilometres of signage as SC First Bank over one weekend and the Standard Chartered branch has been integrated into the SC First Bank network. The leadership team is experienced, established and is a balance of local and international executives. It is Standard Chartered's intent to be a leader in the Korean financial services industry.

The speed and success of the integration reflects the talent, focus and commitment of our Korean staff.

The Wholesale Banking business in Korea is progressing well. We have an enhanced product portfolio and a fully operational dealing room. In Consumer Banking in Korea we have launched 12 new products, including the 'Welcome Back' mortgage campaign – which featured a one month interest waiver, and brought in 38,000 new accounts and \$4 billion of new mortgage sales.

When this acquisition was announced we said it would be EPS accretive in 2006 and we are very pleased to have met this target on a normalised basis in the second half of 2005.

We are at the early stages of our journey but we have made a great start. Korea is a huge market and we are in a good position for the future.

## Consumer Banking

In Consumer Banking, operating profit was up

## 2006 Management Agenda

### Accelerate growth in both businesses, focusing on priority markets

- Deepen client relationships in Wholesale Banking
- Enter new customer segments in Consumer Banking

### Drive growth and performance in Korea

### Excel in service and innovation

### Lead by Example in corporate responsibility

## Group Chief Executive's Review continued



**Euromoney Best Debt House in Thailand and Singapore**  
Euromoney magazine recognised Wholesale Banking's debt finance capability in two of Standard Chartered's key Asian markets.



**IFR Asia Domestic Bond House of the Year**  
IFR cited our 'understanding of the local markets...and impressive capabilities in derivatives and structuring' in giving the award.

21 per cent on last year, and income up 41 per cent. This performance reflects very good momentum in the underlying business, excellent post-acquisition progress in Korea and disciplined management of risk and costs. Excluding SC First Bank, operating profit was up eight per cent and income was up 16 per cent. Expansion of our Consumer Banking customer segments and products continues and despite pressure on mortgage margins, the increased breadth and balance has meant that, overall, the business performed well.

We are investing for the future, developing new products and client coverage and increasing our sales channels. During

2005, there were over 240 product launches across our franchises including e\$aver, My Dream Account and LinkOne. Our branch 'footprint' is rapidly expanding and we now have 1,200 branches. This growth has been fuelled by Korea, where the number of branches has increased to over 400; by Indonesia, where, through our stake in Permata, we now have over 300; and by Pakistan and the Middle East, where we have doubled our branch network in the past two years.

Consumer Banking has increasingly balanced earnings streams. Its focus on wealth management and SMEs is paying dividends.

**Wholesale Banking**

We are continuing to make good progress with our Wholesale Banking business. Operating profit for 2005 was up 22 per cent on 2004, with income up 19 per cent. Excluding SC First Bank, operating profit was up 15 per cent and income was up 11 per cent. Client income growth was strong at 19 per cent and was well balanced across geographies, products and client segments. We have seen strong growth in most key markets, but results have

been impacted by Zimbabwe's economic problems.

Our client-led strategy continues to drive performance in key markets and across key products. We are investing for sustainable growth, extending our product reach and increasing our global markets capabilities. We have expanded our franchise in a number of markets and strengthened local corporate teams. Previous investments in key product areas, such as in debt capital markets and corporate finance, are paying off with excellent growth across all client segments.

Proactive risk management has been complemented by a benign credit environment with strong recoveries resulting in a net release. We are continuing to invest in regulatory compliance, control infrastructure, risk management and technology.

Overall, 2005 was a good year in terms of performance. The Group is now engaged on reaching its goals for 2006 and we have set out our management agenda.

**Management Agenda 2006**

- To accelerate growth in both businesses, by focusing on priority markets and



**Indian products for a new generation**  
With an average age of 25, India presents opportunities for Standard Chartered's products and services aimed at the young.

**Online Banking**  
The eCheque payment channel in Singapore underscores the Group's use of technology.



## “We intend to be known for good results and for creating a robust future”

extending our geographic and customer reach

- In Wholesale Banking we will deepen client relationships and cross-sell more
- In Consumer Banking we will enter new customer segments, such as private banking and consumer finance
- Korea is a huge opportunity and, therefore, a continued priority. We will drive growth and performance
- Across the Group we will accelerate improvements in service and innovation
- It remains our intent to lead by example in corporate responsibility. Our programmes on diversity, environment, avoidable blindness, HIV and malaria are important to the communities where we operate, differentiate our brand and make a difference to current and prospective employees

### Looking forward

There are changing trends in demographics worldwide, which will inevitably influence our business going forward. In five years' time there will be over 100 million people

in China aged over 65 and, in India, over 350 million under the age of 15. These types of changes have major implications for our business. We will see increased product segmentation as different age groups have very different aspirations and we will have to think deeply about how we develop our brand in different markets.

The environment is becoming a major agenda item for all businesses. In markets where we operate there are concerns about energy, air quality, even water, which may impact our customer base. We have to pay new attention to resources: to how we as a business are using them, to our lending policies around them and to our participation in the debates on the future economic impacts of these issues.

Transparency is another evolving area that affects our business. More information, moving at higher speeds, in many ways presents exciting opportunities for us, for our employees and our customers. Equally, regulatory requirements and pressures are increasing and creating something of a burden, despite the positive motivations behind them.

These are some of the subjects on which we are focusing our thoughts. We recognise that to ensure continued performance we need to be thinking ahead.

We believe there are three major capabilities we must have to meet these challenges. We must have a real understanding of our customers. We must have the ability to innovate and create the right environment for innovation to happen. In order to do that we must be able to develop the right quality of people.

Being close to our customers is key and our customer knowledge is increasing all the time. The Group's Outserve initiative is making great progress in reaching our customers and understanding their needs. We carry out world-wide research, providing us with over three million data points from more than 25,000 respondents. In Consumer Banking, our survey carried out in 22 countries told us that in 2005, 80 per cent of customers were 'loyal and positive'. This number was

up on the previous year, and the increase equates to an additional 400,000 'loyal and positive' customers.

Our brand promise is to be The Right Partner, Leading by Example. Customer feedback is at the centre of everything we do. Listening to customers helps us generate new ideas. For example in response to customer feedback we launched our online cheque template – the eCheque – in Singapore. Early take up is encouraging and we have patented it. This is one example of increasing innovation in the Bank and of the type of product that changes the market place.

As well as customer driven innovation, speed to market is critical. The Group's work in technology in recent years means we have reduced development times and still maintained the stringent checks expected of a bank. For example, we implemented our consumer finance platform in India in just 72 days.



### Leading the way in East Africa

Standard Chartered was recognised as the Most Respected Company in East Africa in a survey conducted by PricewaterhouseCoopers and Nation Media Group. Based on the views of 300 senior business managers in the region, the award affirms the success of the Group's strategy in Africa.

## Group Chief Executive's Review continued



**e\$aver takes Singapore market by storm**

Our groundbreaking e\$aver savings account in Singapore achieved its 18-month sales target in less than a month. It was one of over 200 products launched by Consumer Banking in 2005.

To Outserve our customers and to drive innovation we need good people. Happily, the Group is increasingly a magnet for talent. The growing economies and exciting markets where we do business are appealing to many high calibre individuals.

Through our graduate development programme we recruit and grow the talent we need for the long term. The 2006 international graduate programme has received over 40,000 applications, including over 19,000 from China. Across the Group we are developing an increasingly international, mobile, talented young workforce.

We are committed to talent development and have a

company wide process that identifies talent at all levels and allows us to accelerate the development of the best. In 2005, for example, nearly 40 per cent of our high potential employees had some form of job development move and 16 per cent were international assignments. In our established workforce, turnover of high performers and high potential staff is low. Last year 80 per cent of senior management appointments were made from within the Group.

Having the right people remains key to supporting our continued growth. We believe our investment in people now will give us real competitive edge going forward.

We are working hard to Lead the Way in the areas which will underpin our business performance now and in the future.

### Outlook

In 2005, the Group achieved good financial performance and made significant strategic progress. The outlook for 2006 is promising. Whilst we can never be immune to external shocks, we anticipate double-digit income growth across the Group as a whole.

Our strength, diversity and breadth give us resilience and flexibility. The Consumer Banking and Wholesale Banking businesses, including SC First Bank, have good momentum and we are well positioned to leverage the opportunities available to us in our markets.

We will maintain our disciplined approach to managing expenses. We will continue to focus on improving productivity and sustain our investment in new products, new capabilities and expanded distribution. Expense growth will be broadly in line with income growth for the full year.

We will dynamically manage the pace of investment spend through the year, factoring in both the risk environment and the performance.

We will continue to manage risks proactively. In Consumer Banking, we expect loan impairment charges will tend to grow in line with the size and mix of the overall book though Taiwan will continue to present some challenges. For Wholesale Banking, while the credit environment in most of our markets remains benign,



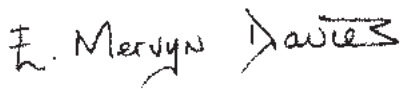
### The Standard Chartered Greatest Race on Earth

The Greatest Race on Earth returned for its second year, bigger and better, with the largest prize pool in athletics of \$1.575 million. The series of four marathons in Nairobi, Singapore, Hong Kong and Mumbai attracted over 80,000 runners in total, including over 40,000 in Hong Kong (left).

we are somewhat cautious on the credit outlook. Moreover, the level of recoveries and releases achieved in 2005 will not recur in 2006. Consequently, we expect Wholesale Banking will revert to having a net charge in 2006.

#### In summary

Standard Chartered is making good progress. We are clear on our strategy and well positioned to take advantage of the many opportunities in our markets.



**Mervyn Davies, CBE**  
Group Chief Executive  
2 March 2006

## Leading the way

### Standard Chartered aims to be The Right Partner to investors, customers, employees and other stakeholders.

#### Stakeholder engagement

As part of our commitment to corporate responsibility, we want to use our skills, products and services to assist communities and economies and to help protect the environment.

In 2004 we made clear our resolve to learn from our stakeholders. We believe that doing so will result in a sustainable corporate responsibility programme that will make a lasting difference.

We created a formal plan for stakeholder engagement and we have followed through with this plan in 2005, focusing on the socially responsible investment (SRI) community, non-government organisations (NGOs) and the UK Government's development and environmental departments.

In 2005 we held over 50 meetings with NGOs and SRI analysts to understand the concerns and interests of our stakeholders. We also commissioned an agency to undertake further stakeholder research for us. These discussions shaped our thinking on how we can better report our progress and the social and environmental issues on which we should focus.

#### Reporting on progress

Our progress against these issues is published in greater detail on our corporate responsibility website, along with a comprehensive account of Standard Chartered's commitment to and governance of corporate responsibility. Where possible we also provide numerical indicators against the guidelines of the Global Reporting Initiative.

Specific reports will be produced in the first half of 2006 on:

- Social and environmental risks in lending and the Equator Principles
- Climate change and the environment
- Responsible selling
- Diversity and inclusion
- Community investment and employee volunteering
- Health, safety and security
- Tackling corruption

We have made good progress but we recognise we still have much to do. Targets for 2006 have been set for the Group and we are monitoring results.

We believe that corporate responsibility and the drive for long-term profitability are interlinked. We have reported many aspects of our corporate responsibility activity alongside our business activities in the following Business Review.

For more information, please visit our website  
[www.standardchartered.com/corporateresponsibility](http://www.standardchartered.com/corporateresponsibility)

