Notes to the Accounts

1. Accounting Policies

Statement of compliance

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). In publishing the parent company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

Both the Group and the Company are preparing their financial statements in accordance with adopted IFRSs for the first time and consequently both have applied IFRS 1. An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group and Company is provided in note 55. The Group and the Company have taken advantage of the transitional arrangements of IFRSs not to restate corresponding comparative amounts in accordance with IAS 32 and 39. These Standards were adopted on 1 January 2005. Adjustments required to adopt IAS 32 and 39 are set out in note 55.

The Group has adopted the Amendment to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option and the Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures with effect from 1 January 2005, ahead of their effective dates.

Basis of preparation

The preparation of financial statements in conformity with adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to adopted IFRSs.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint Ventures

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements.

Foreign currency translation

Both the parent company financial statements and the Group financial statements are presented in US dollars, which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary transactions are translated at historical exchange rates.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences are recognised as a separate component of equity.

Notes to the Accounts continued

1. Accounting Policies continued

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Such exchange differences arising since 1 January 2004 have been separately identified within equity and when a foreign operation is sold, they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'interests in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	3 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are included in the income statement.

Leases

Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where a Group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax and cash flows.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances at central banks (unless restricted), treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Employee benefits

Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of recognised income and expense in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs together with the expected return on plan assets less the effect of the unwinding of the discount on plan liabilities are charged to operating expenses.

1. Accounting Policies continued

Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which carry a mandatory coupon, or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in other income.

Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

Financial assets and liabilities (excluding derivatives)

From 01.01.04 to 31.12.04

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis in the Group's activities are classified as investment securities. They include portfolios of securities held in countries where the Group is required to maintain a stock of liquid assets. Investment securities are stated at cost less any provision for permanent diminution in value. The cost of dated investment securities is adjusted to reflect the amortisation of accretion of premiums and discounts on acquisition on a straight-line basis over the residual period to maturity. The amortisation and accretion of premiums and discounts are included in interest income.

Securities other than investment securities are classified as trading securities and are held at market value. Where the market value of such securities is higher than cost, the original cost is not disclosed as its determination is not practicable.

From 01.01.05

The Group classifies its financial assets in the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Financial liabilities are classified as either at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
- a group of financial assets and/or liabilities are managed and its performance evaluated on a fair value basis, or
- assets or liabilities include embedded derivatives and such derivatives are not recognised separately.

Notes to the Accounts continued

1. Accounting Policies continued

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(d) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets and liabilities at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished.

Available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets held at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets other than foreign exchange gains and losses from monetary items are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Impairment of financial assets
From 01.01.04 to 31.12.04
Provisions for impairment are held in respect of loans and advances, including cross border exposures. The provisions comprise two elements – specific and general.

Provisions against loans and advances are based on an appraisal of the loan portfolio. Specific provisions are made where the repayment of identified loans is in doubt and reflect an estimate of the amount of loss expected. The general provision is for the inherent risk of losses which, although they have not been separately identified, are known from experience to be present in any loan portfolio and to other material uncertainties where specific provisioning is not appropriate. The amount of the general provision reflects past experience and judgements about current conditions in particular locations or business sectors.

Provisions are made against cross border exposures where a country may experience or has experienced external liquidity problems and doubts exist as to whether full recovery will be achieved.

Provisions are applied to write off advances, in part or in whole, when they are considered wholly or partly irrecoverable.

Interest on loans and advances is accrued to income until such time as reasonable doubt exists about its collectability; thereafter, and until all or part of the loan is written off, interest continues to accrue on customers' accounts, but is not included in income. Such suspended interest is deducted from loans and advances on the balance sheet.

From 01.01.05
Assets carried at amortised cost
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

1. Accounting Policies continued

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Available-for-sale assets

A significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Derivative financial instruments and hedge accounting

From 01.01.04 to 31.12.04

Off-balance sheet financial instruments are valued with reference to market prices and the resultant profit or loss is included in the profit and loss account, except where the position in the instrument has been designated as a hedge when the profit or loss resulting from marking them to market is dealt with in the same way as the accounting treatment applied to the position hedged.

Trading positions are valued at market rates, and non-trading positions are valued on the same basis as the items being hedged. Netting occurs where transactions with the same counterparty meet the following requirements. The balances must be determinable and in freely convertible currencies, the Standard Chartered entity can insist on net settlement, and this ability is beyond doubt.

From 01.01.05

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Notes to the Accounts continued

1. Accounting Policies continued

Offsetting financial instruments

From 01.01.04 to 31.12.04

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts.

From 01.01.05

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') remain on the balance sheet; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Interest income and expense

From 01.01.05

Interest income and expense is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

From 01.01.04 to 31.12.04

Fees and commissions which represent a payment for a service provided in setting up a transaction, are credited to the profit and loss account once they are receivable.

Fees and commissions which in substance amount to an additional interest charge, are recognised over the life of the underlying transaction on a level yield basis.

From 01.01.05

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

Hyperinflation

Where the Group has operations in countries that experience hyperinflation, the financial statements are restated for changes in general purchasing power of the local currency.

2. Segmental Information

The Group is organised on a worldwide basis into two main business segments: Wholesale Banking and Consumer Banking. The types of products and services within these segments are set out in the Financial Review. The Group's secondary reporting format comprises geographical segments.

By Class of Business

	2005				2004			
	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million
Internal income	26	(26)	–	–	(2)	2	–	–
Net interest income	2,861	1,474	–	4,335	1,961	1,220	1	3,182
Other income	920	1,606	–	2,526	741	1,352	107	2,200
Operating income	3,807	3,054	–	6,861	2,700	2,574	108	5,382
Operating expenses	(2,101)	(1,710)	–	(3,811)	(1,400)	(1,426)	(23)	(2,849)
Operating profit before impairment losses	1,706	1,344	–	3,050	1,300	1,148	85	2,533
Impairment losses on loans and advances	(425)	106	–	(319)	(242)	28	–	(214)
Other impairment	(3)	(11)	(36)	(50)	–	(1)	(67)	(68)
Operating profit before taxation	1,278	1,439	(36)	2,681	1,058	1,175	18	2,251
Total assets employed	74,134	140,464	*498	215,096	38,094	108,712	*318	147,124
Total liabilities employed	79,008	123,472	*283	202,763	53,384	83,376	*295	137,055
Total risk weighted assets and contingents	52,054	73,870	–	125,924	28,069	64,055	–	92,124
Other segment items:								
Capital expenditure	114	109	–	223	98	96	–	194
Depreciation	68	58	–	126	60	55	–	115
Amortisation of intangible assets	74	83	–	157	38	85	–	123

* As required by IAS 14, tax balances are not allocated.

Notes to the Accounts continued

2. Segmental Information continued

By geographic segment

The Group manages its business segments on a global basis. The operations are based in nine main geographical areas. The UK is the home country of the parent. Following the acquisition of SC First Bank (SCFB, formerly Korea First Bank), a new geographical area of Korea has been included. Comparative amounts have been restated.

	2005									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Internal income	49	3	4	(4)	10	(10)	1	(16)	(37)	–
Net interest income	935	270	214	826	626	337	478	380	269	4,335
Fees and commissions income, net	352	139	60	45	225	151	234	151	138	1,495
Net trading income	101	84	44	63	165	72	89	31	120	769
Other operating income	75	14	11	24	28	40	6	5	59	262
Operating income	1,512	510	333	954	1,054	590	808	551	549	6,861
Operating expenses	(649)	(246)	(150)	(632)	(610)	(306)	(339)	(399)	(480)	(3,811)
Operating profit before impairment losses	863	264	183	322	444	284	469	152	69	3,050
Impairment losses on loans and advances	(117)	(43)	(30)	(61)	(49)	(50)	9	(43)	65	(319)
Other impairment	(1)	–	–	–	–	1	–	(47)	(3)	(50)
Operating profit before taxation	745	221	153	261	395	235	478	62	131	2,681
Loans and advances to customers – average	22,148	11,966	6,521	23,315	9,971	5,107	7,917	2,088	9,819	98,852
Net interest margins (%)	2.2	1.1	2.2	2.0	3.0	3.3	3.2	7.3	0.5	2.5
Loans and advances to customers – period end	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Loans and advances to banks – period end	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959
Total assets employed**	49,943	23,602	10,409	59,929	24,141	10,943	12,902	5,606	37,083	234,558
Total risk weighted assets and contingents	21,281	11,770	5,224	31,850	15,140	6,369	9,304	2,732	24,256	127,926
Capital expenditure	36	43	6	42	34	18	11	13	20	223

* Middle East and Other S Asia includes UAE operating income of $331 million, operating expenses of $133 million, impairment losses on loans and advances of $20 million and operating profit before taxation of $178 million.

** Total assets employed includes intra-group items of $19,960 million and excludes deferred tax assets of $498 million.

2. Segmental Information continued

	2004									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Internal income	28	(12)	(10)	(4)	(4)	(12)	(4)	(23)	41	–
Net interest income	899	324	194	32	465	299	370	374	225	3,182
Fees and commissions Income, net	323	114	51	7	189	111	203	153	181	1,332
Net trading income	99	81	30	33	88	67	75	74	104	651
Other operating income	57	6	5	2	17	1	4	6	119	217
Operating income	1,406	513	270	70	755	466	648	584	670	5,382
Operating expenses	(660)	(228)	(145)	(41)	(477)	(252)	(270)	(360)	(416)	(2,849)
Operating profit before impairment losses	746	285	125	29	278	214	378	224	254	2,533
Impairment losses on loans and advances	(125)	(33)	(2)	3	(43)	(22)	(2)	(12)	22	(214)
Other impairment	–	–	–	–	–	2	–	–	(70)	(68)
Operating profit before taxation	621	252	123	32	235	194	376	212	206	2,251
Loans and advances to customers – average	21,608	10,398	5,272	352	8,008	3,841	6,325	1,833	7,430	65,067
Net interest margin (%)	2.2	1.6	2.4	1.1	2.8	3.6	3.1	7.6	0.6	2.6
Loans and advances to customers – period end	21,744	11,765	6,374	794	8,961	4,692	6,972	2,013	8,844	72,159
Loans and advances to banks – period end	2,852	2,072	349	1,646	1,705	171	892	374	7,321	17,382
Total assets employed**	48,478	20,414	7,119	5,093	17,377	8,611	12,867	6,419	56,792	183,170
Total risk weighted assets and contingents	20,337	13,892	4,411	1,639	11,705	6,413	8,761	2,749	24,895	94,802
Capital expenditure	22	28	12	4	9	44	15	14	46	194

* Middle East and Other S Asia includes UAE operating income of $271 million, operating expenses of $100 million, impairment losses on loans and advances of $1 million and operating profit before taxation of $170 million.

** Total assets employed includes intra-group items of $28,801 million, $7,563 million of derivative balances which are netted on the Consolidated Balance Sheet and excludes deferred tax assets of $318 million.

Notes to the Accounts continued

2. Segmental Information continued

Following the acquisition of SCFB on 15 April 2005, Korea has been identified as a separately reportable geographic segment. In 2004, the existing Korean business was included in Other Asia Pacific. Accordingly, this segment has been restated to present Korea separately. The UAE segment has been included within Middle East and Other S Asia.

Apart from SCFB, Group central expenses 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. In SCFB, allocations have been based on an estimate of direct management costs of integration as a transitional measure.

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

Total risk weighted assets and contingents include $2,002 million (31 December 2004: $2,678 million) of balances which are netted in calculating capital ratios.

In 2005 other impairment includes provision made in respect of exposures in Zimbabwe. In 2004 other operating income includes profits and losses arising from corporate decisions to dispose of investments in KorAm Bank ($95 million in Americas, UK & Group Head Office) and Bank of China (Hong Kong) ($36 million in Hong Kong) and the premium on repurchase of surplus subordinated debt ($23 million in India). Costs include $18 million related to the incorporation of the Hong Kong business (Hong Kong) and the $5 million donation to the Tsunami relief effort (Malaysia, India, Other APR and MESA). Other impairment includes goodwill impairment of $67 million. These decisions resulted in net non-recurring gains of $18 million. They are included in the Geographic segmental information, but are not allocated to businesses in the Business segmental information.

Capital expenditure comprises additions to property and equipment (note 25) and intangibles (note 24) including additions resulting from acquisitions.

3. Interest Income

	2005 $million	2004 $million
Balances at central banks	8	3
Treasury bills	469	254
Loans and advances to banks	851	491
Loans and advances to customers	6,104	3,563
Listed debt securities	525	428
Unlisted debt securities	745	573
Accrued on impaired assets (discount unwind)	48	–
	8,750	5,312

Total interest income from financial instruments held at amortised cost in 2005 is $6,313 million.

4. Interest Expense

	2005 $million	2004 $million
Deposits by banks	643	385
Customer accounts:		
Current and demand accounts	597	239
Savings deposits	97	68
Time deposits	1,852	895
Debt securities in issue	703	178
Subordinated loan capital and other borrowed funds:		
Wholly repayable within five years	158	82
Other	365	283
	4,415	2,130

Total interest expense on financial instruments held at amortised cost in 2005 is $4,262 million.

5. Net Trading Income

	2005 $million	2004 $million
Gains less losses on foreign currency	613	494
Gains less losses on trading securities	(19)	20
Other trading profits	175	137
	769	651

6. Other Operating Income

	2005 $million	2004 $million
Other operating income includes:		
Gains less losses on disposal of investment securities	–	164
Gains less losses on disposal of available-for-sale financial assets	107	–
Dividend income	62	11
Premium paid on repurchase of subordinated debt	–	(23)

7. Operating Expenses

	2005 $million	2004 $million
Staff costs:		
Wages and salaries	1,653	1,195
Social security costs	48	32
Other pension costs (note 35)	131	92
Other staff costs	313	240
	2,145	1,559
Premises and equipment expenses:		
Rental of premises	183	150
Other premises and equipment costs	167	159
Rental of computers and equipment	13	12
	363	321
General administrative expenses	1,020	731

Wages and salaries include share based expenses – see note 40.

The Group employed 43,899 staff at 31 December 2005 (31 December 2004: 33,323).

The Company employed nil staff at 31 December 2005 (31 December 2004: nil). It incurred costs of $3 million (2004: $2 million).

Directors emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 49 to 61.

Transactions with directors, officers and other related parties are disclosed in the related parties note 51 on page 126.

Notes to the Accounts continued

7. Operating Expenses continued

Other administrative expenses include $12.4 million (2004: $8.3 million) in respect of auditor's remuneration for the Group, of which $0.4 million (2004: $0.4 million) relates to the Company. The auditors of the Company, KPMG Audit Plc and their associated firms, also received $3.1 million (2004: $5.9 million) in respect of non-audit services provided to the Group. Details of non-audit services are reflected below:

	2005 $million	2004 $million
Non-audit fees paid to KPMG Audit Plc and its associated firms:		
Regulatory reviews	0.3	1.7
Accounting reviews/advisory	1.1	0.3
Capital raising activities	0.2	0.2
Assistance with business acquisitions and disposals	0.4	1.1
Tax advisory and compliance	0.8	1.2
Other assistance	0.3	1.4
	3.1	5.9

In addition to the above services, the Group's auditors acted as auditor to the Standard Chartered Pension Fund, a UK defined contribution staff pension plan and, since the date of acquisition, the SC First Bank pension plans. The appointment of auditors to the Group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the Group. The aggregate fees paid to the Group's auditor for audit services to the pension schemes during the year were $0.2 million (2004: $0.2 million).

8. Depreciation and Amortisation

	2005 $million	2004 $million
Premises	53	47
Equipment	73	68
Intangibles:		
Software	125	123
Acquired on business combinations	32	–
	283	238

9. Other Impairment

	2005 $million	2004 $million
Goodwill	2	67
Other	48	1
	50	68

Under IFRS, goodwill is not amortised. Instead, annual impairment assessments are made. On transition to IFRS on 1 January 2004, goodwill amortisation of $181 million recorded under UK GAAP in 2004 was reversed and an impairment charge of $67 million was recorded in its place to write down goodwill on certain investments to $nil (see note 24). Other impairment mainly comprises provision for exposures in Zimbabwe.

10. Taxation

Analysis of taxation charge in the year:

	2005 $million	2004 $million
The charge for taxation based upon the profits for the year comprises:		
United Kingdom corporation tax at 30% (31 December 2004: 30%):		
Current tax on income for the year	326	407
Adjustments in respect of prior periods	4	18
Double taxation relief	(308)	(357)
Foreign tax:		
Current tax on income for the year	671	559
Adjustments in respect of prior periods	(18)	(13)
Total current tax	675	614
Deferred tax:		
Origination/reversal of temporary differences	35	16
Tax on profits on ordinary activities	710	630
Effective tax rate	26.5%	28.0%

Overseas taxation includes taxation on Hong Kong profits of $131 million (31 December 2004: $92 million) provided at a rate of 17.5 per cent (31 December 2004: 17.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 30 per cent.

The differences are explained below:

	2005 $million	2004 $million
Profit on ordinary activities before taxation	2,681	2,251
Tax at 30 per cent (2004: 30 per cent)	804	675
Effects of:		
Tax free income	(16)	–
Lower taxes on overseas earnings	(111)	(12)
One-off adjustments on Korea branch transfer	(12)	–
Adjustments to tax charge in respect of previous periods	(16)	3
Capital gains against which losses have been applied	–	(36)
Other items	26	(16)
Total current taxation charge	675	614

Tax recognised directly in equity:

	2005 $million	2004 $million
Current tax credit on instruments reclassified from debt to equity	20	20
Deferred tax credit on available-for-sale investments	49	–
Deferred tax credit on pensions	51	46
Deferred tax credit on share based awards	86	–
Deferred tax on other items	29	–
Total deferred tax recognised in equity	215	46
Total tax recognised in equity	235	66

Notes to the Accounts continued

11. Dividends

Ordinary Equity Shares	2005 Cents per share	2005 $million	2004 Cents per share	2004 $million
Final dividend declared and paid during the period	40.44	524	36.49	429
Interim dividends declared and paid during the period	18.94	248	17.06	201
	59.38	772	53.55	630

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior years. The 2005 final dividend of 45.06 cents per share ($595 million) will be paid in either sterling, Hong Kong dollars or US dollars on 12 May 2006 to shareholders on the UK register of members at the close of business in the UK on 10 March 2006 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 10 March 2006. 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 cash dividend. Details of the dividend will be sent to shareholders on or around 27 March 2006.

Preference Shares		2005 $million	2004 $million
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each*	14	14
	8 1/4 per cent preference shares of £1 each*	15	15
Non-cumulative redeemable preference shares:	8.9 per cent preference shares of $5 each	29	29

* Dividends on these preference shares are treated as interest expense in 2005 following adoption of IAS 32.

12. Earnings Per Ordinary Share

	2005 Profit $million	2005 Weighted average number of shares ('000)	2005 Per share amount cents	2004 Profit $million	2004 Weighted average number of shares ('000)	2004 Per share amount cents
Basic earnings per ordinary share	1,917	1,290,916	148.5	1,520	1,172,921	129.6
Effect of dilutive potential ordinary shares:						
Convertible bonds	7	10,346		23	34,488	
Options	–	8,678		–	3,444	
Diluted earnings per share	1,924	1,309,940	146.9	1,543	1,210,853	127.4

Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33 Earnings per share. The table below provides a reconciliation:

	2005 $million	2004 $million
Profit attributable to ordinary shareholders	1,917	1,520
Profit on sale of shares in – KorAm		(95)
– Bank of China		(36)
Premium and costs paid on repurchase of subordinated debt		23
Costs of Hong Kong incorporation		18
Tsunami donation		5
Goodwill impairment		67
Total one-off items		(18)
Amortisation of intangible assets arising on business combinations	32	–
Profit less losses on disposal of investment securities held at cost	–	(33)
Profit on sale of property, plant and equipment	–	(4)
Profit on disposal of subsidiary undertakings	–	(4)
Other impairment	42	1
Tax on normalised items	(7)	–
Normalised earnings	1,984	1,462
Normalised earnings per ordinary share	153.7c	124.6c

12. Earnings Per Ordinary Share continued

No ordinary shares were issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculations had they been issued prior to the end of the balance sheet period except as described in notes 37 and 52.

Normalised EPS has grown by 23 per cent. With the adoption of IAS 39, the Group no longer normalises gains and losses on disposal of investment securities as these are now held in an available-for-sale portfolio at fair value.

Had this policy been adopted in 2004, normalised earnings per share would have been 127.5 cents and EPS growth would have been 20 per cent.

13. Financial Instruments Classification Summary

On 1 January 2005, the Group adopted IAS 39 which requires the classification of financial instruments between four recognition principles: at fair value through profit or loss (comprising trading and designated), available-for-sale, held-to-maturity and loans and receivables. The face of the balance sheet now combines financial instruments that are held at their fair value and subdivided between those assets and liabilities held for trading purposes and those that the Group has elected to hold at fair value. Comparative balance sheet lines have been reclassified only to the extent that those assets or liabilities were treated as trading under UK GAAP for that period. In addition treasury bills have been disclosed under trading assets and investment securities, as appropriate, rather than as a separate category.

The Group's classification of its principal financial assets and liabilities (excluding derivatives) is summarised below:

	2005					
	Trading $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Loans and receivables $million	Held to-maturity $million	Total $million
Loans and advances to banks	1,258	–	30	21,671	–	22,959
Loans and advances to customers	230	156	105	111,686	–	112,177
Treasury bills and other eligible bills	2,223	492	10,199	–	–	12,914
Debt securities	5,612	244	25,231	1,264	215	32,566
Equity shares	118	–	954	–	–	1,072
Total assets at 31 December 2005	9,441	892	36,519	134,621	215	181,688
Total assets at 1 January 2005	6,064	1,902	30,451	88,952	1,040	128,409

	Trading $million	Designated at fair value $million	Amortised cost $million	Total $million
Due to banks	1,102	337	18,834	20,273
Customer accounts	394	614	119,931	120,939
Debt securities in issue	1,068	433	25,913	27,414
Short positions	2,345	–	–	2,345
Total liabilities at 31 December 2005	4,909	1,384	164,678	170,971
Total liabilities at 1 January 2005	3,708	–	110,942	114,650

Notes to the Accounts continued

14. Financial Assets Held at Fair Value through Profit or Loss

Certain loans and advances and debt securities with fixed rates of interest are designated at fair value through profit or loss because interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. Derivatives are recorded at fair value whereas loans and advances are usually recorded at amortised cost. Designation of the loans and debt securities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost income recognition (a criteria of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of interest rate swaps to the corresponding loan and debt security.

The changes in fair value of both the underlying loans and advances and debt securities and interest rate swaps are monitored in a similar manner to trading book portfolios.

Upon adoption of IAS 32 and 39, the Group designated these assets at fair value as at 1 January 2005. The carrying amount of $1,898 million under UK GAAP was revalued to $1,902 million.

The fair value loss on assets designated at fair value through profit or loss was $8 million.

	2005			2004
	Trading $million	Designated at fair value through profit or loss $million	Total $million	Total Trading $million
Loans and advances to banks	1,258	–	1,258	695
Loans and advances to customers	230	156	386	140
Treasury bills and other eligible bills	2,223	492	2,715	236
Debt securities	5,612	244	5,856	3,673
Equity shares	118	–	118	–
	9,441	892	10,333	4,744

Debt securities

	2005 $million	2004 $million
Issued by public bodies:		
Government securities	1,632	1,792
Other public sector securities	–	1
	1,632	1,793
Issued by banks:		
Certificates of deposit	811	82
Other debt securities	1,028	777
	1,839	859
Issued by corporate entities and other issuers:		
Other debt securities	2,385	1,021
Total debt securities	5,856	3,673
Of which:		
Listed on a recognised UK exchange	537	–
Listed elsewhere	1,526	1,505
Unlisted	3,793	2,168
	5,856	3,673

Equity securities

Unlisted	118	–

15. Derivative Financial Instruments

Derivatives are financial instruments that derive their value from changes in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

On 1 January 2005 the Group adopted IAS 39. It requires all derivatives to be recognised as trading and recorded at fair value, with all revaluation gains recognised in profit or loss (except where cash flow hedging has been achieved, in which case changes in fair value go through reserves). For the comparatives UK GAAP has been applied. Under UK GAAP, derivatives held for hedging purposes are classified as non-trading and are not recorded on the balance sheet at fair value.

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

In respect of credit risk arising from the use of derivatives, the Group sets limits on net open positions. The amount of credit risk is the current positive fair value (asset) of the underlying contract. The credit risk is managed as part of the overall lending limits to banks and customers, together with potential exposures from market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. Exposures are not presented net in these accounts after 1 January 2005 as transactions are not usually settled on a net basis as required by IAS 39.

The Derivatives and Hedging section of the Financial Review on pages 35 and 36 explains the Group's risk management of derivative contracts and is incorporated in these financial statements accordingly.

	2005			2004		
Total derivatives	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	326,053	5,392	5,884	409,003	6,789	6,500
Currency swaps and options	175,121	351	487	116,734	2,592	2,532
Exchange traded futures and options	–	–	–	238	–	–
	501,174	5,743	6,371	525,975	9,381	9,032
Interest rate derivative contracts:						
Swaps	471,652	3,452	3,239	411,722	3,376	3,129
Forward rate agreements and options	68,015	72	160	57,970	101	127
Exchange traded futures and options	117,026	43	27	96,282	54	54
	656,693	3,567	3,426	565,974	3,531	3,310
Credit derivative contracts	9,374	45	52	–	–	–
Equity and stock index options	379	3	3	–	–	–
Commodity derivative contracts	4,642	12	12	6,030	33	33
Total derivatives	1,172,262	9,370	9,864	1,097,979	12,945	12,375
Effect of netting		(6,271)			(7,563)	
Net credit risk on derivatives		3,099			5,382	

Under UK GAAP derivatives used for hedging purposes were recognised on balance sheet at their accrued amount. The 2004 comparative amounts in the table above include positive fair values of $50 million and negative fair values of $37 million that were not recognised on balance sheet.

Notes to the Accounts continued

15. Derivative Financial Instruments continued

The Group uses derivatives primarily to mitigate interest rate and foreign exchange risk. Hedge accounting is applied to derivatives and hedged items when the criteria under IFRS have been met. The table below lists the types of derivatives that have achieved hedge accounting with the following two categories:

Fair value hedges

The Group uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rates on funding to match floating rates received on assets or exchanges fixed rates on assets to match the floating rates paid on funding. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit or loss.

Cash flow hedges

The Group uses swaps to manage the variability in future interest cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies. Gains and losses arising on the hedges are deferred in reserves until the variability on the cash flow affects profit or loss, at which time the gains or losses are transferred to profit or loss.

	2005			2004		
Derivatives held for hedging	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges						
Swaps	6,123	368	143	–	–	–
	6,123	368	143	–	–	–
Derivatives designated as cash flow hedges						
Swaps	3,581	–	24	–	–	–
Forward foreign exchange contracts	802	4	23	–	–	–
	4,383	4	47	–	–	–
Hedges under UK GAAP						
Swaps	–	–	–	2,304	17	4
Forward rate agreements and options	–	–	–	495	–	–
Commodity derivative contracts	–	–	–	6,030	33	33
Total derivatives held for hedging	10,506	372	190	8,829	50	37

16. Loans and Advances to Banks

	2005 $million	2004 $million
Loans and advances to banks	22,982	17,446
Individual impairment provision (note 19)	(22)	(52)
Portfolio impairment provision (note 19)	(1)	–
Interest in suspense	–	(12)
	22,959	17,382
Of which: loans and advances held at fair value through profit or loss (note 14)	(1,258)	(695)
	21,701	16,687

17. Loans and Advances to Customers

	2005 $million	2004 $million
Loans and advances to customers	113,908	74,463
Individual impairment provision (note 19)	(1,364)	(1,407)
Portfolio impairment provision (note 19)	(367)	–
General provisions (note 19)	–	(335)
Interest in suspense	–	(562)
	112,177	72,159
Of which: loans and advances held at fair value through profit or loss (note 14)	(386)	(140)
	111,791	72,019

The Group has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of $65 million (2004: $79 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of $65 million (2004: $79 million) arising from the securitisations.

The Group’s exposure to credit risk is concentrated in Hong Kong, Korea 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 Korea residents of $22.5 billion (2004: $nil) and Hong Kong residents of approximately $12.0 billion (2004: $12.2 billion).

Notes to the Accounts continued

17. Loans and Advances to Customers continued

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

	2005				2004
	One year or less $million	One to five years $million	Over five years $million	Total $million	Total $million
Loans to individuals					
Mortgages	4,756	9,598	29,717	44,071	22,018
Other	8,352	4,666	1,572	14,590	10,001
Small and medium enterprises	5,883	1,687	1,921	9,491	3,479
Consumer Banking	18,991	15,951	33,210	68,152	35,498
Agriculture, forestry and fishing	546	81	19	646	656
Construction	602	99	12	713	615
Commerce	6,518	481	78	7,077	6,325
Electricity, gas and water	684	198	680	1,562	1,394
Financing, insurance and business services	6,552	1,706	628	8,886	9,012
Loans to governments	4,507	197	170	4,874	2,105
Mining and quarrying	699	216	213	1,128	1,527
Manufacturing	8,477	2,068	798	11,343	9,326
Commercial real estate	2,433	974	73	3,480	2,126
Transport, storage and communication	1,544	872	974	3,390	2,962
Other	888	354	51	1,293	948
Wholesale Banking	33,450	7,246	3,696	44,392	36,996
Portfolio impairment provision				(367)	–
General provision				–	(335)
				112,177	72,159

18. Assets Leased to Customers

	2005 $million	2004 $million
Finance leases	298	181
Instalment credit agreements	851	1,052
	1,149	1,233

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 $201 million (2004: $111 million).

	2005 $million	2004 $million
Minimum lease receivables under finance leases falling due:		
Within one year	73	67
Later than one year and less than five years	266	92
After five years	23	30
	362	189
Interest income relating to future periods	(64)	(8)
Present value of finance lease receivables	298	181

19. Impairment Provisions on Loans and Advances

	2005	2004	
	Total $million	Specific $million	General $million
Provisions held at beginning of year	1,794	1,661	425
Adoption of IAS 39[1]	(12)	–	–
At 1 January	1,782	1,661	425
Exchange translation differences	(25)	13	–
Acquisitions	407	36	–
Amount utilised	–	–	(39)
Amounts written off	(871)	(607)	–
Recoveries of amounts previously written off	153	95	–
Discount unwinding	(48)	–	–
Other	24	(8)	4
New provisions	915	609	–
Recoveries/provisions no longer required[1]	(583)	(340)	(55)
Net charge against/(credit to) profit[2]	332	269	(55)
Provisions held at 31 December[3]	1,754	1,459	335

1. The opening balance at 1 January 2005 was adjusted with the adoption of IAS 39. The individual impairment provision increased by $90 million. The general provision recorded under UK GAAP was reversed. Under IAS 39, a portfolio impairment provision of $233 million was created.
2. The net charge of $332 million comprises $255 million individual impairment charge and $77 million portfolio impairment charge. It excludes provision releases of $13 million for credit commitments (note 34). The total impairment charge on loans and advances and other credit risks is $319 million.
3. The provision of $1,754 million held at 31 December 2005 comprises $1,386 million individual impairment provision and $368 million portfolio impairment provision.

The following table shows impairment provisions by each principal category of borrowers' business or industry:

	2005 $million	2004 $million
Loans to individuals		
Mortgages	107	61
Other	70	66
Small and medium enterprises	351	51
Consumer Banking	528	178
Agriculture, forestry and fishing	32	39
Construction	24	40
Commerce	129	386
Electricity, gas and water	16	11
Financing, insurance and business services	105	101
Loans to governments	–	44
Mining and quarrying	26	34
Manufacturing	355	435
Commercial real estate	16	3
Transport, storage and communication	53	49
Other	80	87
Wholesale Banking	836	1,229
Individual impairment provision against loans and advances to customers (note 17)	1,364	1,407
Individual impairment provision against loans and advances to banks (note 16)	22	52
Portfolio impairment provision/general provision (note 16, 17)	368	335
Total impairment provisions on loans and advances	1,754	1,794

Notes to the Accounts continued

20. Non-Performing Loans and Advances

	2005			2004		
	SCNB (LMA) $million	Other $million	Total $million	SCNB (LMA) $million	Other $million	Total $million
Non-performing loans and advances	–	2,694	2,694	351	2,586	2,937
Impairment provision	–	(1,754)	(1,754)	(115)	(1,344)	(1,459)
Interest in suspense				–	(574)	(574)
	–	940	940	236	668	904

Net non-performing loans and advances comprises loans and advances to banks $24 million (31 December 2004: $55 million) and loans and advances to customers $916 million (31 December 2004: $849 million).

The Group acquired Standard Chartered Nakornthon Bank (SCNB) in September 1999. Under the terms of the acquisition, non-performing loans were subject to a Loan Management Agreement (LMA) with a Thai Government Agency (The Financial Institutions Development Fund (FIDF)) which guaranteed certain losses. The LMA expired in 2004 and the losses guaranteed by FIDF have been settled during 2005. Accordingly, the balances have been derecognised and are shown as $nil under SCNB in the table above.

Impairment provisions cover 65 per cent of non-performing lending to customers (2004: 74 per cent, excluding the SCNB non-performing loan portfolio of $351 million subject to the LMA).

Impairment provision for 2005 includes $368 million of portfolio impairment provision and 2004 excludes $335 million of general provision under UK GAAP.

21. Investment Securities

	2005				2004
	Held-to-maturity $million	Available-for- sale $million	Loans and receivables $million	Total $million	Total $million
Treasury and other eligible bills	–	10,199	–	10,199	4,189
Debt securities	215	25,231	1,264	26,710	29,169
Equity securities	–	954	–	954	253
	215	36,384	1,264	37,863	33,611

	2005					
	Debt Securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity securities $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	215	8,618	–			
Other public sector securities	–	1,418	–			
	215	10,036	–			
Issued by banks:						
Certificates of deposit	–	6,330	–			
Other debt securities	–	5,973	–			
	–	12,303	–			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,892	1,264			
	–	2,892	1,264			
Total debt securities	215	25,231	1,264			
Listed on a recognised UK exchange	–	5,944	–	23	–	5,967
Listed elsewhere	3	6,776	–	235	7,005	14,019
Unlisted	212	12,511	1,264	696	3,194	17,877
	215	25,231	1,264	954	10,199	37,863

21. Investment Securities continued

	2004			
	Debt securities $million	Equity securities $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	8,477			
Other public sector securities	1,263			
	9,740			
Issued by banks:				
Certificates of deposit	6,076			
Other debt securities	6,678			
	12,754			
Issued by corporate entities and other issuers:				
Other debt securities	6,675			
	6,675			
Total debt securities	29,169			
Listed on a recognised UK exchange	5,651	–	–	5,651
Listed elsewhere	6,700	88	–	6,788
Unlisted	16,818	165	4,189	21,172
	29,169	253	4,189	33,611

The change in the carrying book amount of investment securities comprised:

	2005				2004			
	Debt securities $million	Equity securities $million	Treasury bills $million	Total $million	Debt securities $million	Equity securities $million	Treasury bills $million	Total $million
Opening	29,169	253	4,189	33,611	20,801	359	5,533	26,693
Adoption of IAS 39*	(1,571)	39	(251)	(1,783)	–	–	–	–
At 1 January	27,598	292	3,938	31,828	20,801	359	5,533	26,693
Exchange translation differences	(1,026)	1	(154)	(1,179)	(16)	1	20	5
Acquisitions	2,327	289	5,622	8,238	–	–	–	–
Additions	33,655	658	13,443	47,756	79,813	121	9,396	89,330
Transfers	35	(35)	–	–	–	–	–	–
Maturities and disposals	(35,748)	(351)	(12,599)	(48,698)	(71,452)	(228)	(10,778)	(82,458)
Provisions	1	(1)	(33)	(33)	–	–	–	–
Changes in fair value	(107)	104	(29)	(32)	–	–	–	–
Amortisation of discounts and premiums	(25)	(3)	11	(17)	23	–	18	41
At 31 December	26,710	954	10,199	37,863	29,169	253	4,189	33,611

* From 1 January 2005 all available-for-sale investments are held at fair value in accordance with IFRSs, with corresponding opening adjustments.

Treasury bills and other eligible bills include $2,347 million (2004: $nil) of bills sold subject to sale and repurchase transactions.

Debt securities include $811 million (2004: $1,068 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2005, unamortised premiums on debt securities held for investment purposes amounted to $59 million (31 December 2004: $135 million) and unamortised discounts amounted to $41 million (31 December 2004: $356 million).

The valuation of listed securities is at market value and of unlisted securities is at fair value. Income from listed equity shares amounted to $32 million (31 December 2004: $4 million) and income from unlisted equity shares amounted to $30 million (31 December 2004: $7 million).

Notes to the Accounts continued

22. Investments in Subsidiary Undertakings, Joint Ventures and Associates

	Historical cost $million
At 1 January 2005	4,292
Additions	3,681
At 31 December 2005	7,973

At 31 December 2005, 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	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100%
Standard Chartered First Bank Korea Limited, Korea	Korea	100%
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100%
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100%
Standard Chartered Bank (Thai) Public Company Limited, Thailand*	Thailand	99.8%
Standard Chartered Capital Management (Jersey) LLC, United States	United States	100%
Standard Chartered Receivables (UK) Limited, England and Wales	United Kingdom	100%
Standard Chartered Financial Investments Limited, England and Wales	United Kingdom	100%
Standard Chartered Debt Trading Limited, England and Wales	Hong Kong	100%

*formerly Standard Chartered Nakornthon Bank Public Company Limited, Thailand

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

Joint venture

The Group has a joint venture arrangement which holds a majority investment in PT Bank Permata Tbk, in Indonesia. The Group proportionately consolidates its 31.55 per cent share line by line. Contingent liabilities set out in note 44, includes $11 million relating to this joint venture arrangement. These mainly comprise banking acceptances, guarantees and irrevocable letters of credit.

There are no capital commitments of the venturers.

Related party transactions are disclosed in note 51.

The following amounts have been included in the consolidated accounts of the Group:

	2005 $million	2004 $million
Total assets	1,231	1,179
Total liabilities	(1,032)	(992)
	199	187

Income	69	8
Expenses	(62)	(5)
Impairment	2	–
Operating profit	9	3
Tax	(2)	(1)
Share of post tax result from joint venture	7	2

22. Investments in Subsidiary Undertakings, Joint Ventures and Associates continued

Interests in associates

	2005 $million	2004 $million
At 1 January	–	–
Additions	128	–
At 31 December	128	–

Total assets	128	–
Total liabilities	–	–
	128	–

On 15 August 2005, the Group invested $128 million in establishing China Bohai Bank.

The Group's investment in China Bohai Bank is less than 20% but is considered to be an associate because of the significant influence the Group has over the management and financial and operating polices. Its operations commence in 2006 and as such there is no share of income and expenses for 2005.

The reporting date of the associate is coterminous with the Group.

23. Business Combinations

2005 acquisitions

On 15 April 2005, the Group acquired 100 per cent of the share capital of Korea First Bank (now called SC First Bank), a major banking group in the Republic of Korea (South Korea). The acquired business contributed operating income of $859 million and profit before tax of $227 million to the Group for the period from 15 April 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, SCFB would have added approximately $1,150 million to Group operating income and $300 million to profit before tax for the period.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid	3,338
– direct costs relating to the acquisition	35
Total purchase consideration	3,373
Fair value of net assets acquired	1,635
Goodwill	1,738

The goodwill is attributable to the significant synergies expected to arise from the development of SCFB within the Standard Chartered Group and those intangibles such as workforce in place which are not recognised separately.

Notes to the Accounts continued

23. Business Combinations continued

The assets and liabilities arising from the acquisition are as follows:

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	2,321	2,321
Derivative financial instruments	27	27
Loans and advances to banks	890	890
Loans and advances to customers	31,455	31,983
Investment securities	8,153	8,139
Intangibles other than goodwill	229	58
Property, plant and equipment	1,088	1,109
Deferred tax assets	97	15
Other assets	887	884
Total assets	45,147	45,426
Deposits by banks	2,782	2,782
Customer accounts	18,923	19,328
Financial liabilities held at fair value through profit or loss	121	–
Derivative financial instruments	240	240
Debt securities in issue	16,871	17,243
Other liabilities	2,962	2,239
Subordinated liabilities and other borrowed funds	1,280	1,514
Total liabilities	43,179	43,346
Minority interest	333	298
Net assets acquired	1,635	1,782
Purchase consideration settled in cash	3,373	
Cash and cash equivalents in subsidiary acquired	(2,378)	
Cash outflow on acquisition	995	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts contain some provisional balances which will be finalised in the 2006 accounts.

The intangible assets acquired as part of the acquisition on SCFB can be analysed as follows:

	$million
Brand names	86
Customer relationships	24
Core deposits	91
Capitalised software	28
Total	229

The Group acquired a further 24.97 per cent of Standard Chartered Nakornthon Bank Public Company in Thailand for $98 million giving rise to goodwill of $64 million and 100 per cent of Sumitomo Mitsui Banking Corporation in India for $30 million giving rise to negative goodwill of $6 million which has been recognised through the Consolidated Income Statement.

23. Business Combinations continued

2004 acquisitions

Fair value adjustments for consistent accounting policies principally relate to alignment of policies on depreciation of tangible fixed assets and measurement of credit risk.

Acquisitions in the table below include the additional 25 per cent stake in Standard Chartered Bank Nepal Limited, 100 per cent ownership of Advantage Limited, the 31.55 per cent stake in PT Bank Permata Tbk and the ANZ Project Finance business (excluding Australia and Non-Japan Asia).

The effective date of acquisition of the additional 25 per cent stake in Standard Chartered Bank Nepal Limited was 19 August 2004. The acquisition has been accounted for using the acquisition method. The post-acquisition profit after taxation and minority interests was $1 million for 2004.

The effective date of acquisition of Advantage Limited ('Advantage') was 27 August 2004. It has been accounted for using the acquisition method. The post acquisition profit after taxation of Advantage was $4 million for 2004.

The total consideration payable for the shares in Advantage was HKD 980 million, calculated as a multiple of the audited net book value of Advantage as at 30 June 2004, adjusted to reflect the current market value of certain properties and any shortfall in the net assets of an associated company ('Consideration'). A deposit of HKD 100 million was paid by Standard Chartered Links (Hong Kong) Limited on signing of the Agreement on 28 June 2004.

An amount equal to 90 per cent of the Consideration (less the deposit) was paid in cash on completion of the Agreement with the balance paid on 31 December 2005. The consideration was fully funded from the Group's internal resources.

The effective date of acquisition of PT Bank Permata Tbk was 10 December 2004. It has been accounted for using the acquisition method. The acquisition is being accounted as a joint venture and proportionately consolidated. The Group's share of post acquisition profits after amortisation of goodwill and taxation was $2 million for 2004.

The effective date of acquisition of the ANZ Project Finance business (excluding Australia and Non-Japan Asia) was 10 December 2004. It has been accounted for using the acquisition method. The post-acquisition loss after taxation was $1 million for 2004, including integration expenses of $2 million.

Details of net assets acquired and goodwill are as follows:

	$million
Purchase consideration:	
– cash paid	328
– direct costs relating to the acquisition	5
Total purchase consideration	333
Fair value of net assets acquired	240
Goodwill	93

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	26	26
Loans and advances to banks and customers	1,518	1,518
Investment securities	113	113
Interests in joint ventures	192	192
Property, plant and equipment	11	12
Other assets	82	90
Total assets	1,942	1,951
Deposits by banks and customer accounts	940	940
Other liabilities	754	754
Total liabilities	1,694	1,694
Minority interests	(8)	
Net assets acquired	240	
Purchase consideration settled in cash	333	
Cash and cash equivalents in subsidiary acquired	(26)	
Cash outflow on acquisition	307	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

Notes to the Accounts continued

24. Goodwill and Intangible Assets

	2005				2004			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	2,643	–	466	3,109	2,500	–	492	2,992
Exchange translation differences	8	2	(3)	7	–	–	4	4
Acquisitions	1,802	216	28	2,046	210	–	–	210
Additions	–	–	88	88	–	–	83	83
Disposals	–	–	(14)	(14)	–	–	(18)	(18)
Amounts written off	(2)	–	(103)	(105)	(67)	–	(95)	(162)
At 31 December	4,451	218	462	5,131	2,643	–	466	3,109
Provision for amortisation								
At 1 January	514	–	242	756	514	–	216	730
Exchange translation differences	–	–	(2)	(2)	–	–	–	–
Amortisation for the period	–	32	125	157	–	–	123	123
Disposals	–	–	(4)	(4)	–	–	(2)	(2)
Amounts written off	–	–	(97)	(97)	–	–	(95)	(95)
At 31 December	514	32	264	810	514	–	242	756
Net book value	3,937	186	198	4,321	2,129	–	224	2,353

Acquired intangibles comprises:	
Core deposits	77
Customer relationships	22
Brand trademarks	82
Licences	5
	186

Acquired intangibles and software have finite lives that are amortised over their economic useful life and charged through the 'amortisation and depreciation' line in the income statement. The estimated useful life of software is three to five years. Acquired intangibles were acquired as part of the acquisitions of SCFB and PT Bank Permata Tbk and are amortised over four to sixteen years. Software results from capitalised internal costs in developing programmes for the operation of the Group's computer systems.

In the transition to IFRS, all goodwill amortisation recorded since 1 January 2004 was reversed. This included goodwill amortisation relating to Banco Standard Chartered in Latin America and the Standard Chartered Bank SAL in the Lebanon. The amortisation of the carrying amount of this goodwill would have fully amortised by 2005. In the 2004 IFRS comparatives, an impairment charge of $67 million has been recorded to carry related goodwill at $nil.

24. Goodwill and Intangible Assets continued

Significant items of goodwill arising on acquisitions (after foreign exchange effects) has been allocated to the following cash generating units for the purposes of impairment testing:

Acquisition	Cash Generating Unit	Goodwill $million
SCFB	Korean business	1,758
Manhattan Card Business	Credit card and personal loan – Asia, India & MESA	896
Grindlays (India)	India business	370
Grindlays (MESA)	MESA business	368
SC Nakornthon	Thailand business	264
Permata	Group's share of Permata	105
Other		176
		3,937

All recoverable amounts were measured based on value in use. The key assumptions and approach to determining value in use calculations, as set out below, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year and extrapolated for a further 19 years using steady growth rates. Where these rates are different from available market data on long-term rates, that fact is stated below. Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

SCFB

SCFB was acquired in April 2005 with initial goodwill recognised of $1,738 million. It comprises Consumer and Wholesale Banking operations in Korea.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of Korea. A discount rate of 13.5 per cent was used.

Manhattan Card Business

Manhattan Card Business was acquired in 2000 with initial goodwill recognised of $1,061 million. This was amortised to $892 million under UK GAAP until 31 December 2003. The business comprises a credit card and a personal loans business across Asia, India and MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of the world. A discount rate of 10.1 per cent was used.

Grindlays (India)

Grindlays (India) was acquired in 2000 with initial goodwill recognised of $446 million. This was amortised to $366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in India.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of India. A discount rate of 14.6 per cent was used.

Grindlays (MESA)

Grindlays (MESA) was acquired in 2000 with initial goodwill recognised of $446 million. This was amortised to $366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long term forecast GDP growth of MESA. A discount rate of 13.7 per cent was used.

SC Nakornthon

75 per cent of SC Nakornthon was acquired in 1999 with initial goodwill recognised of $222 million. This was amortised to $204 million under UK GAAP until 31 December 2003. In 2005 the Group acquired the remaining 24.97 per cent, increasing goodwill to $272 million. The business comprises Consumer and Wholesale Banking operations.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of Thailand. A discount rate of 17.4 per cent was used.

Permata

31.55 per cent of Permata was acquired in 2004 with initial goodwill recognised of $115 million. This business comprises Consumer and Wholesale Banking operations in Indonesia.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with long-term forecast GDP growth of Indonesia. A discount rate of 17.8 per cent was used.

Notes to the Accounts continued

25. Property, Plant and Equipment

	2005			2004		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	653	337	990	616	386	1,002
Exchange translation differences	–	(6)	(6)	5	10	15
Additions	70	65	135	83	28	111
Acquisitions	1,052	36	1,088	11	–	11
Disposals and fully depreciated assets written off	(26)	(66)	(92)	(67)	(85)	(152)
Other	(55)	48	(7)	5	(2)	3
At 31 December	1,694	414	2,108	653	337	990
Depreciation						
Accumulated at 1 January	180	255	435	137	261	398
Exchange translation differences	(4)	(6)	(10)	4	6	10
Charge for the year	53	73	126	47	68	115
Attributable to assets sold or written off	(22)	(62)	(84)	(21)	(79)	(100)
Other	(30)	27	(3)	12	(1)	11
Impairment	–	–	–	1	–	1
Accumulated at 31 December	177	287	464	180	255	435
Net book amount at 31 December	1,517	127	1,644	473	82	555

	2005 $million	2004 $million
Premises – analysis of net book amount		
Freehold	1,183	150
Long leasehold	69	73
Short leasehold	265	250
	1,517	473

In the transition to IFRS the Group ceased revaluing premises and now carries the revalued amounts as at 1 January 2004 as deemed cost.

Assets held under finance leases have the following net book amount:

	2005		2004	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Cost	48	7	45	6
Aggregate depreciation	(3)	(5)	(2)	(4)
Net book amount	45	2	43	2

25. Property, Plant and Equipment continued

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

	2005 $million	2004 $million
Minimum lease payments under finance leases falling due:		
Within one year	1	2
Later than one year and less than five years	2	2
After five years	–	–
	3	4
Future finance charges on finance leases	–	(1)
Present value of finance lease liabilities	3	3

26. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period:

	At 1 January 2005 $million	Adoption of IAS 32/39 $million	At 1 January 2005 $million	Exchange translation differences $million	Acquisitions $million	Charge/ (credit) to profit $million	(Credit) to equity $million	At 31 December 2005 $million
Deferred taxation comprises:								
Accelerated tax depreciation	(5)	–	(5)	–	(17)	(12)	–	(34)
Provisions for loans and advances	(144)	16	(128)	(3)	(53)	(1)	–	(185)
Tax losses carried forward	(9)	–	(9)	–	–	2	–	(7)
Available for sale securities	–	9	9	–	8	–	(49)	(32)
Premises revaluation	12	–	12	–	–	–	–	12
Cash flow hedges	–	(1)	(1)	–	–	–	–	(1)
Unrelieved foreign tax	(21)	–	(21)	–	–	21	–	–
Retirement benefit obligations	(46)	–	(46)	(1)	(47)	(15)	(51)	(160)
Share options	(7)	–	(7)	–	–	(8)	(86)	(101)
Other temporary differences	(98)	76	(22)	1	12	48	(29)	10
	(318)	100	(218)	(3)	(97)	35	(215)	(498)

	At 1 January 2004 $million	Exchange translation differences $million	Charge/ (credit) to profit $million	(Credit) to equity $million	At 31 December 2004 $million
Deferred taxation comprises:					
Accelerated tax depreciation	16	–	(21)	–	(5)
Provisions for loans and advances	(143)	(1)	–	–	(144)
Tax losses carried forward	(25)	–	16	–	(9)
Available for sale securities	–	–	–	–	–
Premises revaluation	35	–	(23)	–	12
Cash flow hedges	–	–	–	–	–
Unrelieved foreign tax	–	–	(21)	–	(21)
Retirement benefit obligations	–	–	–	(46)	(46)
Share options	–	–	–	(7)	(7)
Other temporary differences	(148)	(1)	65	(14)	(98)
	(265)	(2)	16	(67)	(318)

Notes to the Accounts continued

26. Deferred Tax continued

	2005 $million	2004 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Tax losses carried forward	–	4
Provisions for loans and advances	–	20
Unrelieved foreign tax	239	178
Unremitted earnings from overseas subsidiaries	(144)	(64)
Foreign exchange movements on investments in branches	33	(20)
Premises revaluation	(16)	(16)
Other	35	35

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings or branches that are foreign operations at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future.

27. Other Assets

	2005 $million	2004 $million
Hong Kong SAR Government certificates of indebtedness (note 33)	2,492	2,532
Mark-to-market adjustments arising on foreign exchange and interest rate contracts	–	7,318
Other	4,671	1,747
	7,163	11,597

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

28. Deposits by Banks

	2005 $million	2004 $million
Deposits by banks	18,834	15,162
Deposits by banks included within:		
Financial liabilities at fair value through profit or loss (note 30)	1,439	652
	20,273	15,814

29. Customer Accounts

	2005 $million	2004 $million
Customer accounts	119,931	85,093
Customer accounts included within:		
Financial liabilities at fair value through profit or loss (note 30)	1,008	365
	120,939	85,458

Included in customer accounts were deposits of $2,640 million (2004: $nil) held as collateral for irrevocable commitments under import letters of credit.

Customer accounts include $964 million (2004: $1,001 million) of liabilities under sale and repurchase agreements.

30. Financial Liabilities at Fair Value through Profit or Loss

	2005			2004
	Trading $million	Designated $million	Total $million	Total Trading $million
Deposits by banks	1,102	337	1,439	652
Customer accounts	394	614	1,008	365
Debt securities in issue	1,068	433	1,501	622
Short positions	2,345	–	2,345	753
	4,909	1,384	6,293	2,392

The Group designates certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest related derivatives have been acquired with the intention of significantly reducing interest rate risk; or
- are exposed foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Derivatives are recorded at fair value whereas non-trading financial liabilities (unless designated at fair value) are recorded at amortised cost. Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition (a criteria of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of derivatives to the corresponding liabilities either individually or on a portfolio basis.

The changes in fair value of both the underlying liabilities and derivatives are monitored in a similar manner to trading book portfolios.

Upon adoption of IAS 32 and 39, the Group designated these liabilities at fair value as at 1January 2005. The carrying amount under UK GAAP was $nil.

The fair value gain on liabilities designated at fair value through profit or loss was $12 million for the year. Of this, $1.7 million relates to changes in credit risk. Of total fair value, $1.9 million relates to credit risk.

The difference between the carrying amount at fair value and the amount the Group is contractually obliged to pay at maturity to the holders of the obligations is $34.1 million.

31. Debt Securities in Issue

	2005			2004		
	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
Debt securities in issue	14,179	11,734	25,913	4,079	6,926	11,005
Debt securities in issue within:						
Financial liabilities at fair value through profit or loss (note 30)	201	1,300	1,501	–	622	622
	14,380	13,034	27,414	4,079	7,548	11,627

Notes to the Accounts continued

32. Structure of Deposits

The following tables set out the structure of Standard Chartered's deposits by principal geographic region where it operates at 31 December 2005 and 31 December 2004:

	2005									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Non interest bearing current and demand accounts	2,998	2,001	1,120	216	1,343	1,928	2,855	1,359	473	14,293
Interest bearing current and demand accounts	12,753	2,063	148	13,554	3,612	3	1,110	1,264	4,534	39,041
Savings deposits	6	1,383	459	12	2,478	1,286	1,369	368	–	7,361
Time deposits	17,893	11,324	4,046	14,542	8,397	3,164	5,179	872	10,675	76,092
Other deposits	20	49	1,120	1,322	748	11	432	97	626	4,425
Total	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Deposits by banks	627	3,641	652	4,742	3,517	676	1,893	98	4,427	20,273
Customer accounts	33,043	13,179	6,241	24,904	13,061	5,716	9,052	3,862	11,881	120,939
	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Debt securities in issue	840	1,111	619	19,815	741	655	–	85	3,548	27,414
Total	34,510	17,931	7,512	49,461	17,319	7,047	10,945	4,045	19,856	168,626

	2004									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	*Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Total $million
Non interest bearing current and demand accounts	3,602	2,040	989	1	1,227	1,224	2,260	1,159	16	12,518
Interest bearing current and demand accounts	15,300	2,329	130	943	2,056	2	1,090	1,603	3,920	27,373
Savings deposits	24	528	437	707	1,154	970	1,599	512	9	5,940
Time deposits	13,155	9,847	3,423	150	6,601	3,441	4,186	679	10,410	51,892
Other deposits	2	50	569	–	904	2	402	69	1,551	3,549
Total	32,083	14,794	5,548	1,801	11,942	5,639	9,537	4,022	15,906	101,272
Deposits by banks	1,204	3,150	813	688	2,674	1,109	1,362	110	4,704	15,814
Customer accounts	30,879	11,644	4,735	1,113	9,268	4,530	8,175	3,912	11,202	85,458
	32,083	14,794	5,548	1,801	11,942	5,639	9,537	4,022	15,906	101,272
Debt securities in issue	1,508	758	401	36	1,027	469	–	1	7,427	11,627
Total	33,591	15,552	5,949	1,837	12,969	6,108	9,537	4,023	23,333	112,899

* Middle East and Other S Asia includes UAE deposits of $5,958 million (2004: $4,740 million).

33. Other Liabilities

	2005 $million	2004 $million
Mark-to-market adjustments arising on foreign exchange and interest rate contracts	–	7,077
Notes in circulation	2,492	2,532
Cash settled share based payments	26	19
Other liabilities	5,928	5,161
	8,446	14,789

Hong Kong currency notes in circulation of $2,492 million (31 December 2004: $2,532 million) are secured by Hong Kong SAR Government certificates of indebtedness of the same amount included in other assets (note 27).

34. Provisions for Liabilities and Charges

	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January 2005	53	8	61
Exchange translation differences	2	(1)	1
Acquired	31	–	31
(Release)/charge against profit	(13)	12	(1)
Provisions utilised	(8)	(2)	(10)
Other	(22)	(5)	(27)
At 31 December 2005	43	12	55

Provisions principally comprise legal claims made against the Group. The timing of concluding these legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

35. Retirement Benefit Obligations

Retirement benefit obligations comprise:

	2005 $million	2004 $million
Defined benefit schemes	465	160
Defined contribution schemes	11	9
Net book amount	476	169

	2005 $million	2004 $million
At 1 January	169	128
Exchange translation differences	(7)	9
Charge against profit (net of finance income)	126	82
Change in net liability	188	(61)
Other	–	11
At 31 December	476	169

Retirement benefit charge comprises:

	2005 $million	2004 $million
Defined benefit schemes	71	45
Defined contribution schemes	60	45
Other	–	2
	131	92

Notes to the Accounts continued

35. Retirement Benefit Obligations continued

UK Fund

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.

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 were paid during 2004 and none are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2005 totalled $11 million (2004: $14 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) employees and seconded staff and 38.4 per cent of pensionable salary for international staff. Due to the closure of the Fund to new entrants, the current service cost will increase as a percentage of pensionable pay as the members approach retirement.

Pension costs for the purpose of these accounts were assessed using the same method, but the assumptions were different in several respects.

With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme.

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Hong Kong, India, Jersey, Kenya, Korea and the United States.

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2005. (The effective date of the full valuations ranges between 31 December 2002 and 31 December 2005.)

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2005 were:

	Funded Defined Benefit Schemes			
	UK Fund[2]		Overseas Schemes[1]	
	2005 %	2004 %	2005 %	2004 %
Price inflation	2.80	2.80	2.00-5.00	2.00-4.50
Salary increases	5.30	5.30	4.00-5.00	4.00-5.00
Pension increases	2.70	2.40	0.00-2.78	0.00-2.40
Discount rate	4.90	5.40	4.25-12.00	4.00-12.00
Post-retirement medical trend rate	N/A	N/A	N/A	N/A

Pension increases for the UK Fund range from 2.7 per cent to 2.8 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 2.8 per cent.

1 The range of assumptions shown is for the main funded defined benefit overseas schemes in Hong Kong, India, Jersey, Kenya and the United States. These comprise 89 per cent of the total liabilities of funded overseas schemes.

2 The assumption for life expectancy for the UK fund assumes that a male member currently aged 60 will live for 26 years (2004: 24½ years) and a male member currently aged 45 will live for 27 years (2004: 25½ years) after his 60th birthday.

35. Retirement Benefit Obligations continued

	Unfunded Schemes			
	Post-retirement Medical[1]		Other	
	2005 %	2004 %	2005 %	2004 %
Price inflation	2.70	2.70	2.70-6.00	2.00-6.00
Salary increases	4.00	4.00	4.00-8.00	4.00-8.00
Pension increases	N/A	N/A	0.00-2.70	0.00-2.40
Discount rate	5.75	6.20	3.00-14.00	3.00-10.00
Post-retirement medical rate	10% in 2005 reducing by 1% per annum to 5% in 2010	9% in 2004 reducing by 1% per annum to 5% in 2008	N/A	N/A

1 The Post-retirement Medical plan is in the United States. There are no other Post-retirement Medical schemes.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2005 were:

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
At 31 December 2005	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	7.75	619	7.75-12.00	162	N/A	N/A	N/A	N/A
Bonds	4.25	909	4.25-12.00	133	N/A	N/A	N/A	N/A
Property	N/A	–	7.00-12.00	2	N/A	N/A	N/A	N/A
Others	4.90	22	1.75- 4.90	83	N/A	N/A	N/A	N/A
Total market value of assets		1,550		380		N/A		N/A
Present value of the schemes' liabilities		(1,785)		(403)		(11)		(196)
Net pension liability*		(235)		(23)		(11)		(196)

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
At 31 December 2004	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	8.40	649	7.00-12.00	161	N/A	N/A	N/A	N/A
Bonds	4.76-5.40	916	4.76-12.00	126	N/A	N/A	N/A	N/A
Property	6.50	–	6.50-12.00	6	N/A	N/A	N/A	N/A
Others	4.60	31	1.75-4.90	24	N/A	N/A	N/A	N/A
Total market value of assets		1,596		317		N/A		N/A
Present value of the schemes' liabilities		(1,679)		(338)		(11)		(45)
Net pension liability*		(83)		(21)		(11)		(45)

The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Kenya and the United States.

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

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

Notes to the Accounts continued

35. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

	Funded Defined Benefit Schemes		Unfunded Schemes		
Year ending 31 December 2005	UK Fund $million	Overseas Schemes $million	Post-retirement Medical $million	Other $million	Total $million
Current service cost	16	41	1	14	72
Past service cost	–	–	–	–	–
Gain on settlements and curtailments	(1)	–	–	–	(1)
Expected return on pension scheme assets	(93)	(28)	–	–	(121)
Interest on pension scheme liabilities	85	24	–	7	116
Total charge to profit before deduction of tax	7	37	1	21	66
(Gain) on assets in excess of expected return*	(91)	(20)	–	–	(111)
Loss on liabilities	256	5	–	–	261
Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax	165	(15)	–	–	150
Deferred taxation	(50)	5	–	–	(45)
Total loss/(gain) after tax	115	(10)	–	–	105

* The actual return on the UK fund assets was $184 million and on overseas scheme assets was $48 million.

	Funded Defined Benefit Schemes		Unfunded Schemes		
Year ending 31 December 2004	UK Fund $million	Overseas Schemes $million	Post-retirement Medical $million	Other $million	Total $million
Current service cost	15	24	–	8	47
Past service cost	1	1	–	1	3
Gain on settlements and curtailments	–	(5)	–	–	(5)
Expected return on pension scheme assets	(91)	(29)	–	–	(120)
Interest on pension scheme liabilities	84	23	1	2	110
Total charge to profit before deduction of tax	9	14	1	11	35
(Gain) on assets in excess of expected return*	(20)	(2)	–	–	(22)
Experience loss/(gain) on liabilities	–	(1)	(1)	–	(2)
Loss on liabilities	23	7	–	(1)	29
Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax	3	4	(1)	(1)	5
Deferred taxation	(1)	–	–	–	(1)
Total loss/(gain) after tax	2	4	(1)	(1)	4

* The actual return on the UK fund assets was $111 million and on overseas scheme assets was $31 million.

The total cumulative amount recognised in the Statement of Recognised Income and Expenses before tax to date is $155 million.

35. Retirement Benefit Obligations continued

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

	Funded Defined Benefit Schemes		Unfunded Schemes		
Year ending 31 December 2005	UK Fund $million	Overseas Schemes $million	Post-retirement Medical $million	Other $million	Total $million
Deficit at 1 January 2005	(83)	(21)	(11)	(45)	(160)
Contributions	11	49	1	11	72
Current service cost	(16)	(41)	(1)	(14)	(72)
Past service cost	–	–	–	–	–
Settlement/curtailment costs	1	–	–	–	1
Other finance income/(charge)	8	4	–	(7)	5
Actuarial (loss)/gain	(165)	15	–	–	(150)
Acquisitions	–	(28)	–	(141)	(169)
Exchange rate adjustment	9	(1)	–	–	8
Deficit at 31 December 2005	(235)	(23)	(11)	(196)	(465)

	Funded Defined Benefit Schemes		Unfunded Schemes		
Year ending 31 December 2004	UK Fund $million	Overseas Schemes $million	Post-retirement Medical $million	Other $million	Total $million
Deficit at 1 January 2004	(79)	(47)	(12)	(35)	(173)
Contributions	14	49	1	1	65
Current service cost	(15)	(24)	–	(8)	(47)
Past service cost	(1)	(1)	–	(1)	(3)
Settlement/curtailment costs	–	5	–	–	5
Other finance income/(charge)	7	6	(1)	(2)	10
Actuarial gain/(loss)	(3)	(4)	1	1	(5)
Acquisitions	–	(4)	–	–	(4)
Exchange rate adjustment	(6)	(1)	–	(1)	(8)
Deficit at 31 December 2004	(83)	(21)	(11)	(45)	(160)

Movement in the pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ending 31 December 2005	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2005	1,913	(2,073)	(160)
Contributions	72	–	72
Current service cost	–	(72)	(72)
Past service cost	–	–	–
Settlement/curtailment costs	–	1	1
Interest cost	–	(116)	(116)
Expected return on scheme assets	121	–	121
Benefits paid out	(98)	98	–
Actuarial gain/(loss)	111	(261)	(150)
Acquisitions	2	(171)	(169)
Exchange rate adjustment	(191)	199	8
Deficit at 31 December 2005	1,930	(2,395)	(465)

Notes to the Accounts continued

36. Subordinated Liabilities and Other Borrowed Funds

	2005 $million	2004 $million
Dated subordinated loan capital – issued by subsidiary undertakings		
£30 million Floating Rate Notes 2009	51	57
£300 million 6.75 per cent Notes 2009	476	517
€600 million 5.375 per cent Notes 2009	655	730
BWP 75 million Floating Rate Notes 2012	14	18
$325 million Floating Rate Notes 2005/2010	–	313
€575 million 4.5 per cent Notes 2010	–	771
$700 million 8.0 per cent subordinated Notes 2031	753	620
€500 million 8.16 per cent non-cumulative Trust Preferred Securities 2010	630	674
£300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities 2016	628	572
£200 million 7.75 per cent Step-Up Notes 2022	426	373
$350 million 4.375 per cent Notes 2014 (Floating rate from 2009)	340	350
HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)	62	64
HKD 670 million Floating Rate Notes 2014	85	85
€750 million 3.625 per cent (Floating rate from 2012) Subordinated rates 2017	880	–
$500 million Floating Rate Notes 2015	498	–
$500 million Floating Rate Notes 2016	498	–
$375 million Subordinated debt 2013	383	–
$200 million Subordinated debt 2013	206	–
KRW 205 billion Subordinated debt 2009	200	–
KRW 160 billion Subordinated debt 2008	157	–
KRW 136 billion Subordinated debt 2007	133	–
KRW 104 billion Subordinated debt 2007	102	–
KRW 40 billion Subordinated debt 2006	40	–
KRW 30 billion Subordinated debt 2011	29	–
KRW 27 billion Subordinated debt 2008	27	–
BWP 50 million Fixed and Floating Rate Subordinated Notes 2015	9	–
TZS 8 billion Subordinated notes 2015	7	–
KRW 3 billion Subordinated debt 2011	3	–
	7,292	5,144
Undated subordinated loan capital – issued by subsidiary undertakings		
£400 million	683	–
£275 million	473	–
	1,156	–
Undated subordinated loan capital – issued by 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	258	288
	1,558	1,588
Other undated borrowings – issued by Undertakings	–	36
Other undated borrowings – issued by Company	*343	–
Total for Group	10,349	6,768
Total for Company	1,893	1,588

* In the balance sheet of the Company the amount recognised is $335 million with the difference being the effect of hedge accounting achieved on a Group basis.

36. Subordinated Liabilities and Other Borrowed Funds continued

All dated and undated loan capital described above is unsecured, unguaranteed and subordinated to the claims of other creditiors including without limitation, customer deposits and deposits by banks. The Group has the right to settle dated and undated debt instruments in certain circumstances set out in the contractual agreements.

Of total dated loan capital and other borrowings $6,151 million is at fixed interest rates (31 December 2004: $4,671 million).

Upon adoption of IAS 32 on 1 January 2005, the Group's £100 million 7⅜ and £100 million 8¼ per cent irredeemable £1 preference shares were reclassified from equity to subordinated liabilities and other borrowed funds.

At the same time £200 million 7.75 per cent Step-Up Notes 2022 and £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities were reclassified as minority interests. On 30 December 2005, the terms and conditions of the notes were modified with the approval of the Trustees. The effect of the modification was to reclassify these instruments from minority interests to subordinated liabilities and other borrowed funds at their market value on 30 December 2005.

On 3 February 2005, the Group issued €750 million subordinated Lower Tier II notes ("Euro Notes") at an issue price of 99.43 per cent and $500 million of subordinated Lower Tier II notes ("Dollar notes") at an issue price of 99.86 per cent.

The Euro notes will mature on 3 February 2017 and are callable on 3 February 2012 and at each subsequent interest date. Interest is payable annually on the Euro notes at a fixed rate of 3.625 per cent until 3 February 2012 when a variable rate of interest of 3 month Euribor plus 87 bps will be paid.

The Dollar notes will mature on 3 February 2015 and are callable on 4 February 2010 and at each subsequent interest date. Interest is payable quarterly on the Dollar notes at a variable rate of $Libor plus 30 bps until 4 February 2010 when the rates will increase to $Libor plus 80 bps.

Fair value of $1,280 million of subordinated liabilities was added with the acquisition of SCFB.

On 18 April 2005, the Group called back the €575 million convertible debt at par. The convertible debt had embedded derivative features that had been separated from the underlying host contract and fair valued on 1 January 2005 on adoption of IAS 32 and 39.

SCB Tanzania issued TZS 8 billion subordinated floating rate bonds in June 2005 which have a final redemption in August 2015 though early redemption in whole or in part by the issuer is available five years and one day from the issue date.

On 17 June 2005, the Group issued £400 million Undated Callable Step Up Subordinated Upper Tier 2 notes at an issue price of 98.642 per cent. Interest is payable annually at a fixed rate of 5.375 per cent until 14 July 2020 when variable rate interest of 3 month £Libor plus 189 bps will be paid. These notes have been consolidated and form a single series with the £400 million notes issued on 17 June 2005.

On 12 October 2005, the Group issued £275 million Undated Callable Step Up Subordinated Upper Tier 2 notes at an issue price of 100.43 per cent. Interest is payable annually on the notes at a fixed rate of 5.375 per cent until 14 July 2020 when variable rate interest of 3 month £Libor plus 189 bps will be paid. These notes have been consolidated and form a single series with the £400 million notes issued on 17 June 2005.

On 21 October 2005 at par, the Group called $325 million Floating Rate Notes 2005/2010 on the first call date.

SCB Botswana issued BWP 50 million subordinated floating rate notes in December 2005 which have a final redemption in December 2015, although early redemption in whole or in part by the issuer is available but only after five years and one day from the issue date.

On 9 December 2005, the Group issued $500m Floating Rate Subordinated Lower Tier 2 notes at an issue price of 99.854 per cent due 2016 with the first call date in June 2011. Interest is payable quarterly on the notes at a floating rate of three months $Libor plus 30 bps until 8th June 2011 when floating interest rate of three month $Libor plus 80 bps will be paid.

Notes to the Accounts continued

37. Share Capital

The authorised share capital of the Company at 31 December 2005 was $4,857 million (2004: $5,137 million) made up of 2,632 million ordinary shares of $0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of $5 each and one million non-cumulative preference share of €1,000 each.

As at 31 December 2005, 328,388 $5 preference shares were in issue. The irredeemable preference shares of £1 each were reclassified to other borrowed funds from 1 January 2005 upon adoption of IAS 32.

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $m	Preference share capital $m	Share premium account $m	Total $m
At 1 January 2004	1,175	588	351	2,813	3,752
Exchange translation differences	–	–	26	–	26
Shares issued, net of expenses	4	2	–	15	17
Capitalised on exercise of share options	–	–	–	7	7
At 31 December 2004	1,179	590	377	2,835	3,802
Adoption of IAS 32 and 39	–	–	(375)	–	(375)
At 1 January 2005	1,179	590	2	2,835	3,427
Capitalised on scrip dividend	4	2	–	(2)	–
Shares issued, net of expenses	133	66	–	2,145	2,211
At 31 December 2005	1,316	658	2	4,978	5,638

On 14 January 2005, the Company issued 117,902,943 new ordinary shares at a price of 920 pence per share representing approximately 9.99 per cent of the Company's existing issued ordinary share capital. The net proceeds of the placing were approximately GBP 1,071 million ($2.0 billion). The purpose of the share issue was to aid the funding of the purchase of the entire share capital of SCFB for approximately KRW 3.4 trillion ($3.3 billion) in cash.

On 16 February 2005, the Company repurchased 3,000 8.9 per cent non-cumulative preference shares. The preference shares were repurchased at a premium of $3 million and were cancelled. The remaining 328,388 preference shares in issue have a nominal value of $2 million and are redeemable at the Company's option at a premium of $326 million.

On 23 May 2005, the Company issued 11,700,000 new ordinary shares at a price of 985.6 pence per share (GBP 115 million, $211 million) to the Employee Benefit Trust towards satisfaction of the vested shares under the Company's discretionary share schemes. A further 3,525,788 shares were issued for the purpose of the employee share schemes during 2005.

On 13 May 2005, 2,522,654 ordinary shares were issued instead of the 2004 final cash dividend. On 14 October 2005, 1,735,708 ordinary shares were issued instead of the 2005 interim cash dividend.

Post balance sheet date, on 12 January 2006, the Company issued 3,401,290 new ordinary shares at an average price of 1301 pence per share representing approximately 0.26 per cent of the Company's existing issued ordinary share capital. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited.

The holding of Standard Chartered PLC shares by the Group's share based award schemes is set out in note 40.

Transaction costs deducted from share issues total $25 million (2004: $nil).

38. Reserves and Retained Earnings

Group

	Capital Reserve $million	Capital Redemption Reserve $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Premises revaluation reserve $million	Translation reserve $million	Retained earnings $million	Total $million
At 1 January 2004	5	11	–	–	57	–	4,122	4,195
Recognised income and expenses	–	–	–	–	19	96	1,578	1,693
Dividends	–	–	–	–	–	–	(630)	(630)
Net own shares adjustment	–	–	–	–	–	–	52	52
Capitalised on exercise of share options	–	–	–	–	–	–	(7)	(7)
At 31 December 2004	5	11	–	–	76	96	5,115	5,303
Adoption of IAS 32 and 39	–	–	73	42	–	–	36	151
Recognised income and expenses	–	–	(50)	(62)	–	(90)	1,865	1,663
	–	–	23	(20)	–	(90)	1,901	1,814
Net own shares adjustment	–	–	–	–	–	–	(73)	(73)
Share option expense and related taxation	–	–	–	–	–	–	123	123
Dividends net scrip	–	–	–	–	–	–	(712)	(712)
Debt recognition premium	–	–	–	–	–	–	(211)	(211)
At 31 December 2005	5	11	23	(20)	76	6	6,143	6,244

The cumulative amounts of premiums on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (2004: $27 million).

Capital reserves represent the exchange difference on redenomination of share capital and share premium from sterling to USD in 2001.

Capital redemption reserve represents the repurchase of preference shares.

Available-for-sale reserve is the fair value movement of financial assets classified as available-for-sale. Gains and losses are deferred to this reserve until such time the underlying asset is sold or matures.

Cash flow hedge reserve is the fair value movement of derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred to this reserve until such time the underlying hedged item affects profit and loss.

Premises revaluation represents revaluations made prior to the adoption of IFRS by the Group on 1 January 2004.

Translation reserve represents the foreign exchange gains and losses on translation of the net investment of its foreign operations. Gains and losses are deferred to this reserve until such time the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of its foreign operations.

Retained earnings are the carried forward recognised income and expenses of the Group plus current period recognised income and expenses less dividend distribution, treasury shares and share option expenses.

Own shares held total 14,040,907 at 31 December 2005 (2004: 12,306,768).

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.

Notes to the Accounts continued

38. Reserves and Retained Earnings continued

Company

	Capital Reserve $million	Capital Redemption Reserve $million	Retained earnings $million	Total $million
At 1 January 2004	5	11	616	632
Recognised income and expenses	–	–	663	663
Dividends	–	–	(630)	(630)
Net own shares adjustment	–	–	52	52
Capitalised on exercise of share options	–	–	(7)	(7)
At 31 December 2004	5	11	694	710
Adoption of IAS 32 and 39	–	–	–	–
Recognised income and expenses	–	–	798	798
	–	–	798	798
Net own shares adjustment	–	–	(73)	(73)
Share option expense and related taxation	–	–	52	52
Dividends net scrip	–	–	(712)	(712)
At 31 December 2005	5	11	759	775

39. Minority Interests

	£200m 2022 Step-Up Notes $million	£300m 8.103% Step-Up Callable Perpetual Trust $million	$300m 7.267% Hybrid Tier-1 Securities $million	Other minority interests $million	Total $million
At 31 December 2004 previously published	–	–	–	964	964
Adoption of IAS 32 and 39	396	598	–	(4)	990
At 1 January 2005	396	598	–	960	1,954
Arising on acquisition	–	–	333	–	333
Appropriation in respect of exchange translation	(43)	(64)	–	(1)	(108)
Other profits attributable to minority interests	26	41	14	52	133
Recognised income and expenses	(17)	(23)	14	51	25
Distributions	(26)	(42)	(11)	(39)	(118)
Reductions	(353)	(533)	–	(857)	(1,743)
At 31 December 2005	–	–	336	115	451

On 30 December 2005, the terms and conditions of the £200 million 2022 Step-Up notes and £300 million Step-Up Callable Perpetual Trust notes were modified with the approval of the Trustees. The effect of the modification is that the notes have been reclassified from minority interests to subordinated liabilities and other borrowed funds at their market value on 30 December 2005.

Following additional investments in the Global Liquidity Fund by third parties, the Group's interest is no longer treated as a subsidiary and the minority interest has been reduced accordingly.

In May 2005, the Group purchased a further 24.97 per cent of Standard Chartered Nakornthon Bank Public Company Thailand, reducing the other minority interest.

40. Share Based Payments

The Group operates a number of share based payment schemes for its directors and employees.

The total charge for the year relating to employee share based payment plans was $78 million (2004: $55 million) of which $64 million (2004: $45 million) relates to equity settled awards and $14 million (2004: $10 million) relates to cash settled awards. After deferred tax, the total charge was $68 million (2004: $48 million).

1997 Restricted Share Scheme

The Group operates a discretionary Restricted Share Scheme for high performing and high potential staff at any level of the organisation whom the Group wish to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the Restricted Share Scheme is not applicable to executive directors, as it has no performance conditions attached to it. 50 per cent of the award vests two years after the date of grant and the balance after three years. The value of shares awarded in any year to any individual may not exceed two times their base salary.

1997 Supplemental Share Option Scheme (closed)

No awards have been made under this scheme since February 2000 and it is anticipated that no future grants will be made under it except in exceptional circumstances. To be eligible for a grant under this scheme, participants had to retain a personal holding of at least 10,000 shares, purchased at their own expense. Options can only be exercised up to the fifth anniversary of the grant date if, during the performance period:

- The share price over 20 consecutive days exceeds the share price at the date of grant by at least 50 per cent plus RPI; and
- EPS increases by at least 25 per cent plus RPI.

Both conditions must be satisfied within five years of the date of grant. In the event of a change of control, the Committee may deem the EPS target to have been met.

1994 Executive Share Option Scheme (closed)

No awards have been made under this scheme since August 1999 as the scheme was replaced by the 2000 Executive Share Option Scheme. Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price is the share price at the date of grant and options can only be exercised if EPS increases by at least 15 per cent over three consecutive years.

2000 Executive Share Option Scheme

The 2000 scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. An EPS performance criterion needs to be met before options can be exercised.

Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can normally only be exercised if a performance condition is satisfied.

2001 Performance Share Plan

The Performance Share Plan is designed to be an intrinsic part of total remuneration for the Group's executive directors and for a small number of the group's most senior executives. It is an internationally competitive long-term incentive plan that focuses executives on meeting and exceeding the long-term performance targets of the Group. The performance criteria which need to be met are set out in the Director's Remuneration Report on pages 49 to 61. Awards of nil price options to acquire shares are granted to the director and will normally be exercised between three and ten years after the date of grant if the individual is still employed by the Group. There is provision for earlier exercise in certain limited circumstances.

All Employee Sharesave Schemes

Under the UK and International Sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the all employee sharesave schemes.

In some countries in which the Group operates it is not possible to operate sharesave schemes, typically because of securities law, regulatory or other similar issues. In these countries the Group offers an equivalent cash-based scheme to its employees.

Notes to the Accounts continued

40. Share Based Payments continued

2000 Executive Share Option Scheme

Valuation

Options are valued using a Binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant Date	2005		2004	
	14 June	9 March	14 September	4 March
Share price at grant date	£10.395	£9.71	£9.58	£9.355
Exercise price	£10.395	£9.71	£9.58	£9.355
Shares granted	153,839	752,938	230,476	5,440,084
Vesting period (years)	3	3	3	3
Expected volatility (%)	30.9/31.6	30.9/32.3	30.9/35.6	30.9/35.8
Expected option life (years)	10	10	10	10
Risk free rate (%)	4.2/4.6	4.2/4.9	4.2/4.9	4.2/4.8
Expected dividends (yield) (%)	3.5	3.5	3.5	3.5/3.7
Fair value (%)	24.3/32.3	26.5/34.9	28.8/35.6	28.3/36.6

The expected volatility is based on historical volatility over the last five years or five years prior to grant, where two amounts are shown, the first relates to cash settled awards. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life, where two amounts are shown, the first relates to cash settled awards. Where two fair values are quoted, the first relates to the grant date valuation of equity settled awards and the second is 31 December 2005 valuation of the cash settled awards.

A reconciliation of option movements over the year to 31 December 2005 is shown below:

	2005		2004	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	30,707,971	£8.00	27,866,978	£7.73
Granted	906,777	£9.83	6,119,426	£9.36
Lapsed	(508,060)	£7.87	(381,612)	£7.56
Exercised	(7,472,028)	£7.99	(2,896,821)	£8.60
Outstanding at 31 December	23,634,660	£8.08	30,707,971	£8.00
Exercisable at 31 December	8,303,114	£8.21	4,763,342	£9.00

	2005				2004			
			Weighted average remaining life:				Weighted average remaining life:	
Range of exercise price	Weighted average exercise price	No. of shares	Expected years	Contractual years	Weighted average exercise price	No. of shares	Expected years	Contractual years
£6.905/£10.395	£8.08	23,634,660	5	7	–	–	–	–
£6.905/£9.88	–	–	–	–	£8.00	30,707,971	5	7.6

40. Share Based Payments continued

2001 Performance Share Plan

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

Grant Date	2005 20 September	2005 9 March	2004 9 June	2004 4 March
Share price at grant date	£11.89	£9.71	£9.21	£9.355
Shares granted	8,410	1,488,580	171,011	825,920
Vesting period (years)	3	3	3	3
Expected option life (years)	10	10	10	10
Expected dividends (yield) (%)	3.5	3.5/3.7	3.9	3.5/3.9
Fair value (EPS) (%)	90	90	90	90
Fair value (TSR) (%)	39	39	39	39

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant. Where two amounts are shown the first relates to cash settled awards. The fair value shown is for both grant date valuation of equity settled awards and 31 December 2005 valuation of the cash settled awards.

A reconciliation of option movements over the year to 31 December 2005 is shown below:

	2005 No. of shares	2005 Weighted average exercise price	2004 No. of shares	2004 Weighted average exercise price
Outstanding at 1 January	3,066,957	–	2,633,736	–
Granted	1,505,589	–	1,000,025	–
Lapsed	(199,379)	–	(272,402)	–
Exercised	(453,441)	–	(294,402)	–
Outstanding at 31 December	3,919,726	–	3,066,957	–
Exercisable at 31 December	390,792	–	86,928	–

Range of exercise price	2005 Weighted average exercise price	2005 No. of shares	2005 Weighted average remaining life: Expected years	2005 Weighted average remaining life: Contractual years	2004 Weighted average exercise price	2004 No. of shares	2004 Weighted average remaining life: Expected years	2004 Weighted average remaining life: Contractual years
n/a	–	3,919,726	–	8.1	–	3,066,957	–	8.2

1997 Restricted Share Scheme

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

Grant date	2005 20 September	2005 14 June	2005 9 March	2004 14 September	2004 4 March
Share price at grant date	£11.89	£10.395	£9.71	£9.58	£9.355
Shares granted	427,472	36,335	2,431,561	222,976	1,162,789
Vesting period (years)	2/3	2/3	2/3	2/3	2/3
Expected option life (years)	7	7	7	7	7
Expected dividends (yield) (%)	3.5	3.5	3.5	3.5/4	3.5/3.9
Fair value (%)	90	90/92	90/92	90/91	90/91

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant, where two amounts are shown, the first relates to cash settled awards. Where two fair values are quoted, the first relates to 31 December 2005 valuation of the cash settled awards and the second relates to the grant date valuation of equity settled awards.

Notes to the Accounts continued

40. Share Based Payments continued

A reconciliation of option movements over the year to 31 December 2005 is shown below:

	2005 No. of shares	2005 Weighted average exercise price	2004 No. of shares	2004 Weighted average exercise price
Outstanding at 1 January	5,396,020	–	5,562,480	–
Granted	2,993,901	–	1,603,121	–
Lapsed	(235,377)	–	(278,383)	–
Exercised	(1,744,500)	–	(1,491,198)	–
Outstanding at 31 December	6,410,044	–	5,396,020	–
Exercisable at 31 December	1,613,044	–	1,477,020	–

Range of exercise price	2005 Weighted average exercise price	2005 No. of shares	2005 Weighted average remaining life: Expected years	2005 Weighted average remaining life: Contractual years	2004 Weighted average exercise price	2004 No. of shares	2004 Weighted average remaining life: Expected years	2004 Weighted average remaining life: Contractual years
n/a	–	6,410,044	–	4.6	–	5,396,020	–	4.6

2004 UK and International Sharesave

Valuation

Options are valued using a Binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant Date	2005 20 September	2005 8 September	2004 14 September	2004 8 September
Share price at grant date	£11.89	£12.25	£9.58	£9.70
Exercise price	£9.87	£9.87	£7.43	£7.43
Shares granted	5,537,252	307,238	1,815,067	232,956
Vesting period (years)	3/5	3/5	3/5	3/5
Expected volatility (%)	21/31	25/31	17/36	33/36
Expected option life (years)	3.33/5.33	3.33/5.33	3.33/5.33	3.33/5.33
Risk free rate (%)	4.2	4.1	4.2/4.9	4.9
Expected dividends (yield) (%)	3.5/3.7	3.5/3.7	3.1/3.9	3.4/3.9
Fair value (%)	24/33	24/31	31/42	31/37

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to grant, where two amounts are shown, the first relates to cash settled awards. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life, where two amounts are quoted, the first relates to equity settled awards. The expected dividends yield is based on historical dividend yield over the last three years or three years prior to grant, where two amounts are shown, the first relates to cash settled awards. Where two fair values are quoted, the first relates to the grant date valuation of equity settled awards and the second is 31 December 2005 valuation of the cash settled awards. All options granted on 8 September 2005 and 8 September 2004 are equity settled awards only.

40. Share Based Payments continued

A reconciliation of option movements over the year to 31 December 2005 is shown below:

	2005		2004	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	2,375,938	£7.43	–	–
Granted	5,902,540	£9.87	2,432,949	£7.43
Lapsed	(382,193)	£7.80	(57,011)	£7.43
Exercised	(3,772)	£7.43	–	–
Outstanding at 31 December	7,892,513	£9.24	2,375,938	£7.43
Exercisable at 31 December	–	–	–	–

	2005				2004			
			Weighted average remaining life:				Weighted average remaining life:	
Range of exercise price	Weighted average exercise price	No. of shares	Expected years	Contractual years	Weighted average exercise price	No. of shares	Expected years	Contractual years
£7.43/£9.87	£9.24	7,892,513	3.33/5.33	3.6	£7.43	2,375,938	3.33/5.33	3.6

Shares of the Group held for the beneficiaries of the Group's share based payment schemes

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust ('the 1995 trust'), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and the Standard Chartered 2004 Employee Benefit Trust ('the 2004 trust') which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trust. 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 1995 trust has acquired 11,700,000 (31 December 2004: 8,220,000) Standard Chartered PLC shares from the Company which are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Performance Share Plan and Executive Shares Option Schemes. The purchase of these shares has been fully funded by the Group. At 31 December 2005, the 1995 trust held 13,631,745 (31 December 2004: 12,127,841) shares, of which 11,521,682 (31 December 2004: 11,854,754) have vested unconditionally.

The 2004 trust has acquired, at market value, 422,659 (31 December 2004: 178,926) Standard Chartered PLC shares, which are held in a pool for the benefit of participants under the Group's deferred bonus plan. The purchase of these shares has been fully funded by the Group. At 31 December 2005, the 2004 trust held 409,160 (31 December 2004: 178,926) Standard Chartered PLC shares, of which 7,333 (31 December 2004: nil) have vested unconditionally.

Notes to the Accounts continued

41. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	Group		Company	
	2005 $million	2004 $million	2005 $million	2004 $million
Cash and balances at central banks	8,012	3,961	–	–
Less restricted balances	(4,269)	(1,860)	–	–
Treasury bills and other eligible bills	4,049	3,666	–	–
Loans and advances to banks	17,590	10,292	–	–
Trading securities	9,844	6,053	–	–
Amounts owed by and due to subsidiary undertakings	–	–	1,590	1,603
Total	35,226	22,112	1,590	1,603

42. Capital Commitments

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

	2005 $million	2004 $million
Contracted	5	6
Not contracted	2	2

43. Operating Lease Commitments

	2005		2004	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	92	4	82	3
Later than one year and less than five years	179	3	153	4
After five years	153	–	77	–
	424	7	312	7

During the year $93 million (2004: $93 million) was recognised as an expense in the income statement in respect of operating leases.

The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2005 is $17 million (2004: $21 million).

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

	2005			2004		
	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*	–	–	–	976	976	842
Guarantees and irrevocable letters of credit	15,952	11,106	7,704	15,942	9,976	8,146
Other contingent liabilities	6,295	5,134	2,995	3,139	2,414	1,221
	22,247	16,240	10,699	20,057	13,366	10,209
Commitments						
Documentary credits and short term trade-related transactions	3,730	746	572	2,924	585	494
Forward asset purchases and forward deposits placed	141	141	28	54	54	11
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	11,128	5,564	3,956	9,140	4,570	4,133
Less than one year	18,690	–	–	8,903	–	–
Unconditionally cancellable	28,705	–	–	25,933	–	–
	62,394	6,451	4,556	46,954	5,209	4,638

* Acceptances and endorsements are recorded on balance sheet with the adoption of IAS 39.

45. Repurchase and Reverse Repurchase Agreements

The Group enters into collateralised reverse repurchase and repurchase agreements as part of credit and funding arrangements.

Balance sheet assets

	2005	2004
	Reverse repurchase agreements $million	Reverse repurchase agreements $million
Banks	1,267	924
Customers	185	139
	1,452	1,063

Balance sheet liabilities

	2005	2004
	Repurchase agreements $million	Repurchase agreements $million
Banks	961	1,203
Customers	964	1,001
	1,925	2,204

Notes to the Accounts continued

45. Repurchase and Reverse Repurchase Agreements continued

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2005 $million	2004 $million
Securities and collateral which can be repledged or sold (at fair value)	1,434	1,014
Thereof repledged/transferred to others for financing activities or to satisfy commitments under short sale transactions (at fair value)	629	

46. Interest Rate Risk

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. The Group and Company uses derivatives to manage effective interest rates whether or not hedge accounting is achieved. In particular they use interest rate swaps to exchange fixed rates of interest for floating rates of interest.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

The risk section of the Financial Review on pages 28 to 36 explains the Group's and Company's risk management with respect to asset and liability management and is incorporated in these financial statements accordingly.

The 2004 table is in accordance with UK GAAP.

	2005							
	Effective interest rates %	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	Total $million
Assets								
Cash and balances at central banks	1.2%	841	–	–	–	–	7,171	8,012
Derivative financial instruments	N/A	3,541	827	917	1,989	1,144	952	9,370
Loans and advances to banks*	3.3%	17,974	1,082	880	664	82	2,277	22,959
Loans and advances to customers*	6.1%	84,355	8,634	5,790	8,406	5,254	(262)	112,177
Investment securities*	4.0%	13,388	12,534	7,605	8,253	3,769	1,003	46,552
Other assets	N/A	894	–	–	87	–	15,045	16,026
Total assets	5.1%	120,993	23,077	15,192	19,399	10,249	26,186	215,096
Liabilities								
Deposits by banks*	2.9%	12,587	4,611	825	570	459	1,221	20,273
Customer accounts*	2.6%	91,216	5,644	6,391	1,697	2,918	13,073	120,939
Derivative financial instruments	N/A	4,095	936	1,111	2,194	927	601	9,864
Debt securities in issue*	3.1%	9,348	6,870	6,671	4,003	522	–	27,414
Other liabilities	N/A	1,222	–	32	251	109	12,310	13,924
Subordinated liabilities and other borrowed funds*	4.8%	–	–	142	2,345	7,862	–	10,349
Total liabilities	2.9%	118,468	18,061	15,172	11,060	12,797	27,205	202,763
Off balance sheet items		514	156	(669)	(391)	–	–	–
Interest rate sensitivity gap		3,039	5,172	(649)	7,948	(2,548)	(1,019)	12,333
Cumulative gap		3,039	8,211	7,562	15,510	12,962	11,943	

* Includes balances subject to fixed rates of interest. Financial assets and liabilities with fixed interest total $49,370 million (2004: $33,908 million) and $16,283 million (2004: $9,725 million) respectively.

46. Interest Rate Risk continued

	2004							
	Effective interest rates %	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	Total $million
Assets								
Cash and balances at central banks	1.4%	545	–	–	2	–	3,413	3,960
Loans and advances to banks	2.6%	9,998	2,934	1,171	2,540	153	586	17,382
Loans and advances to customers	5.4%	51,931	8,412	3,062	5,754	3,216	(216)	72,159
Investment securities	3.7%	16,232	4,753	6,321	7,462	1,772	980	37,520
Other assets	N/A	4,933	1,481	1,526	2,161	1,150	4,852	16,103
Total assets	4.5%	83,639	17,580	12,080	17,919	6,291	9,615	147,124
Liabilities								
Deposits by banks	2.4%	10,456	2,533	1,137	909	–	779	15,814
Customer accounts	1.5%	67,012	2,774	2,791	1,095	48	11,738	85,458
Debt securities in issue	1.7%	5,450	1,540	1,729	2,654	254	–	11,627
Other liabilities	N/A	5,055	1,405	1,445	2,180	1,610	5,693	17,388
Subordinated liabilities and other borrowed funds	6.1%	786	–	–	1,305	4,677	–	6,768
Total liabilities	2.0%	88,759	8,252	7,102	8,143	6,589	18,210	137,055
Off balance sheet items		495	102	(176)	(352)	(69)	–	–
Interest rate sensitivity gap		(4,625)	9,430	4,802	9,424	(367)	(8,595)	10,069
Cumulative gap		(4,625)	4,805	9,607	19,031	18,664	10,069	

The Company incurs interest rate risk on its subordinated liabilities and other borrowings. $1,558 million (2004: $1,588 million) is at floating rates maturing over five years. $343 million (2004: $nil) is fixed rate maturing over five years. The effective yield is 4.8 per cent (2004: 2.3 per cent).

Notes to the Accounts continued

47. Liquidity Risk

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. Contractual maturities do not necessarily reflect actual repayments or cash flow.

The risk section of the Financial Review on pages 28 to 36 explains the Group's and Company's risk management with respect to asset and liability management and is incorporated in these financial statements accordingly.

	2005				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	4,372	–	23	3,617	8,012
Derivative financial instruments	3,668	2,055	1,960	1,687	9,370
Loans and advances to banks	18,090	2,623	2,164	82	22,959
Loans and advances to customers	31,770	20,303	23,196	36,908	112,177
Investment securities	14,764	13,818	13,177	4,793	46,552
Other assets	2,295	360	690	12,681	16,026
Total assets	74,959	39,159	41,210	59,768	215,096
Liabilities					
Deposits by banks	16,597	2,740	879	57	20,273
Customer accounts	103,289	14,451	2,371	828	120,939
Derivative financial instruments	4,290	2,365	2,810	399	9,864
Debt securities in issue	7,246	14,168	5,064	936	27,414
Other liabilities	1,919	587	732	10,686	13,924
Subordinated liabilities and other borrowed funds	–	–	2,741	7,608	10,349
Total liabilities	133,341	34,311	14,597	20,514	202,763
Net liquidity gap	(58,382)	4,848	26,613	39,254	12,333

	2004				
	Three months or less $million	Between three months and six months $million	Between one year and five years $million	More than five years $million	Total $million
Total assets	42,203	25,405	11,429	68,087	147,124
Total liabilities	96,036	9,911	6,763	24,345	137,055
Net liquidity gap	(53,833)	15,494	4,666	43,742	10,069

The Company has financial liabilities of $1,893 million (2004: $1,588 million) maturing in five years or more.

48. Currency Risk

This table shows the extent to which the Group's exposure to foreign currency risk at 31 December 2005.

The risk section of the Financial Review on pages 28 to 36 explains the Group's and Company's risk management with respect to asset and liability management and is incorporated in these financial statements accordingly.

	2005 (million)								
	US dollar	HK dollar	Korean won	Singapore dollar	Malaysian ringgit	Indian rupee	British pound	Other currencies	Total
Total assets	52,970	31,890	55,801	13,801	7,880	8,535	6,606	37,613	215,096
Total liabilities	52,780	28,902	51,689	12,691	7,324	7,416	6,837	35,124	202,763
Net position	190	2,988	4,112	1,110	556	1,119	(231)	2,489	12,333

	2004 (million)								
	US dollar	HK dollar	Korean won	Singapore dollar	Malaysian ringgit	Indian rupee	British pound	Other currencies	Total
Total assets	34,945	30,694	2,995	14,877	7,409	7,205	4,370	44,629	147,124
Total liabilities	35,602	27,170	2,858	13,773	6,672	6,174	4,379	40,427	137,055
Net position	(657)	3,524	137	1,104	737	1,031	(9)	4,202	10,069

The Company's assets and liabilities are predominately in US dollars. It has assets of $254 million (2004: $326 million) and liabilities of $282 million (2004: $477 million) other than US dollars.

Group's structural currency exposures for 2004 under UK GAAP were:

	Net investments in overseas units $ million	Borrowing in functional currency of units being hedged $million	Structural currency exposure $million
Hong Kong dollar	2,920		2,920
Singapore dollar	1,080		1,080
British pound	952	(952)	–
Indian rupee	650		650
Malaysia ringgit	509		509
Other non US dollar	1,742		1,742
	7,853	(952)	6,901

Structural currency exposures for 2004 relate to net investments in non US dollar units.

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, Malaysian ringgit, Singapore dollar, Indian rupee and British pound. The Group prepares its consolidated financial statements in US dollars, and the Group's consolidated balance sheet is affected by movements in the exchange rates between functional currencies and US dollars.

In 2005, the major changes were the elimination of British pound structural exposure and an increase in the Korean won subsequent to the acquisition of SCFB. These currency exposures are referred to as structural. Translation gains and losses arising from these exposures are recognised in the Consolidated Statement of Recognised Income and Expenses.

The risk section of the Financial Review on pages 28 to 36 explains the risk management with respect to the Group's hedging policies.

Notes to the Accounts continued

49. Fair Value of Financial Assets and Liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2005	
	Book amount $million	Fair value $million
Assets		
Cash and balances at central banks	8,012	8,012
Loans and advances to banks	21,671	21,671
Loans and advances to customers	111,686	111,863
Investment securities – held to maturity	1,479	1,470
Liabilities		
Deposits by banks	18,834	18,834
Customer accounts	119,931	119,922
Debt securities in issue	25,913	25,883
Subordinated liabilities and other borrowed funds	10,349	10,543

	2004	
	Book amount $million	Fair value $million
Treasury bills and other eligible bills – investment	4,189	4,188
Debt securities and other fixed income securities	24,709	24,740
Equity shares and other variable yield investments	253	295
Derivative assets – non-trading book	–	50
Derivative liabilities – non-trading book	–	37
Financial liabilities	12,013	11,833

The following sets out the Group's basis of establishing fair values of the financial instruments shown above and derivatives and available-for-sale assets presented in notes 13,15,16,17 and 21.

Cash and balances at central banks
The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks
The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money-market rates for debts with a similar credit risk and remaining maturity.

Loans and advances to customers
Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities
Investment securities, including debt and equity securities, with observable market prices are fair valued using that information. Equity instruments held that do not have observable market data are presented at cost. Debt securities that do not have observable market data are fair valued by either discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits and borrowings
The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue, subordinated liabilities and other borrowed funds
The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Derivatives
Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

50. Market Risk

Trading book

	2005				2004			
	Average $million	High $million	Low $million	Actual $million	Average $million	High $million	Low $million	Actual $million
Daily value at risk:								
Interest rate risk	4.0	5.5	3.1	3.9	3.3	4.4	2.2	3.4
Foreign exchange risk	1.5	2.8	1.0	1.1	2.4	4.5	1.2	3.0
Total	4.3	5.9	3.3	3.9	4.2	6.0	3.1	5.1

This note should be read in conjunction with the market risk section of the Financial Review on page 35 which explains the Group's market risk management and is incorporated in these financial statements accordingly.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group Trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. 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 likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year 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.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

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.

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.

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

Notes to the Accounts continued

51. Related Party Transactions

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 61.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises members of the Group Management Committee, which includes all executive directors.

	2005 $million	2004 $million
Salaries, allowances and benefits in kind	13	11
Pension contributions	1	1
Bonuses paid or receivable	17	14
Share based payments	12	11
	43	37

Transactions with directors, officers and others

At 31 December 2005, 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:

	2005		2004	
	Number	$000	Number	$000
Directors	2	22	–	–
Officers*	2	261	2	260

* For this disclosure, the term 'officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the company secretary.

On 27 August 2004, Standard Chartered Links (HK) Limited, a wholly owned subsidiary of Standard Chartered PLC, completed the acquisition of the entire issued share capital of Advantage Limited from Goland Investment Limited, Winsgreat Limited (a wholly owned subsidiary of Sun Hung Kai Properties Limited ('SHK')) and Warshall Holdings Limited.

Mr Raymond Kwok, one of the directors of Standard Chartered Bank (Hong Kong) Limited (a wholly owned subsidiary of Standard Chartered PLC), is deemed to be interested (within the meaning of the Hong Kong Securities and Futures Ordinance) in 44.96 per cent of the shares in SHK, which in turn owns all the shares in Winsgreat Limited. Accordingly, Winsgreat is an associate of Mr Kwok and the acquisition of Winsgreat's shares in Advantage Limited is a connected transaction for Standard Chartered PLC.

On 16 December 2005, Standard Chartered Bank created a charge over $11 million of cash assets in favour of the independent trustees of its employer financed retirement benefit schemes.

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.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling $28 million at 31 December 2005 (2004: $35 million).

Associates

On 15 August 2005, the Group contributed $128 million to China Bohai Bank Limited for its 19.99 per cent investment.

Company

The Company issues debt externally and lends the proceeds to Group companies. At 31 December 2005 it has loans and debt instruments issued to Standard Chartered Bank of $1,796 million, $40 million to SC Holdings Limited and $3 million to other subsidiaries.

During the year the Company licensed intellectual property rights related to the Company's main brands for $1,465 million over a period of 10 years to a newly formed, indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited. At the year end $1,453 million (2004: $nil) has been included as deferred income in the Company balance sheet in relation to this.

52. Post Balance Sheet Events

In January 2006 the Company issued 3,401,290 new ordinary shares at a price of 1301 pence per share representing approximately 0.26 per cent of the Company's existing issued ordinary share capital. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited. On 2 March 2006 a dividend of 45.06 cents per share was recommended.

53. Significant Accounting Estimates and Judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions of the affects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgements in respect of measuring financial instruments.

Pensions

Actuarial assumptions are made in valuing future pension obligations as set out in note 35. There is uncertainty that these assumptions will continue in the future. They are updated periodically.

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and temporary differences where it is probable that there will be taxable revenue against which it can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

54. 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 the Group'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.

55. Transition to EU adopted IFRS

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements of the company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs").

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that are endorsed by the EU and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs.

Application of IFRS 1: First-time adoption of International Financial Reporting standards

The Group's transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

(b) Fair value as deemed cost exemption

The Group has elected to deem as cost certain items of property, plant and equipment held at valuation as at 1 January 2004.

(c) Cumulative translation differences exemption

The Group has elected to set the previously accumulated cumulative translation to zero at 1 January 2004.

(d) Exemption from restatement of comparatives for IAS 32 and IAS 39

The Group elected to apply this exemption. It has applied previous UK GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required for differences between UK GAAP and IAS 32 and IAS 39 have been determined and recognised at 1 January 2005.

(e) Share-based payment transaction exemption

As the Group has not previously published information regarding the fair value of employee rewards, it has been required to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those equity settled share awards that were issued after 7 November 2002 but that have not vested by 1 January 2005.

Exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from retrospective application.

Notes to the Accounts continued

55. Transition to EU Adopted IFRS continued

(f) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management did not chose to apply the IAS 39 derecognition criteria to an earlier date.

(g) Estimates exception

Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous UK GAAP, unless there is evidence that those estimates were in error.

Reconciliations between IFRS and UK GAAP

The following reconciliations provide details of the impact of the transition on:

- profit for the year ended 31 December 2004 (excluding IAS 32/39)
- equity at 1 January 2004 (excluding IAS 32/39)
- equity at 31 December 2004 (excluding IAS 32/39)
- balance sheet at 31 December 2004 (excluding IAS 32/39)
- equity at 1 January 2005 (including IAS 32/39)

An explanation of the adjustments and the Group's accounting policies under IFRS is set out in the presentation and press release entitled "Standard Chartered PLC Results for 2004 Restated Under International Financial Reporting Standards" dated 12 May 2005. Copies of this document are available from the Group's website at: http://investors.standardchartered.com

Reconciliation of profit for the year ended 31 December 2004 – Group

	Notes	UK GAAP $million	Effect of transition to IFRS $million	IFRS $million
Interest income	a	5,232	80	5,312
Interest expense	a	(2,064)	(66)	(2,130)
Net interest income		3,168	14	3,182
Other finance income	b	10	(10)	–
Fees and commissions income	a	1,617	(3)	1,614
Fees and commissions expense	a	(283)	1	(282)
Net trading income	a	648	3	651
Other operating income	b	207	10	217
		2,189	11	2,200
Operating income		5,367	15	5,382
Staff costs	c	(1,534)	(25)	(1,559)
Premises costs		(321)	–	(321)
Other administrative expenses	b	(721)	(10)	(731)
Depreciation and amortisation	d	(420)	182	(238)
Operating expenses		(2,996)	147	(2,849)
Operating profit before impairment losses and taxation		2,371	162	2,533
Impairment losses on loans and advances and other credit risk provisions		(214)	–	(214)
Income from joint ventures	e	2	(2)	–
Other impairment	d	(1)	(67)	(68)
Profit before taxation		2,158	93	2,251
Taxation	f	(637)	7	(630)
Profit for the year		1,521	100	1,621

55. Transition to EU Adopted IFRS continued

Reconciliation of profit for the year ended 31 December 2004 – Group and Company

	Notes	Group $million	Company $million
UK GAAP		1,521	663
Goodwill	d	114	–
Share options	c	(23)	–
Consolidations	a	4	–
Tax	f	7	–
Other		(2)	–
IFRS		1,621	663

(a) Consolidations
A fund in which the Group has an investment was not required to be consolidated under UK GAAP but is consolidated line by line under IFRS. Operating income and expenses increase by $9 million and $5 million respectively.

(b) Reclassification
Under FRS 17 the finance cost of assets was recorded as Other finance income. $10 million has been reclassified to Other operating income.

(c) Share awards
IFRS 2 requires the fair valuation of all share based payments for those awards made after November 2002 and had not vested at 1 January 2005. This increased staff costs by $23 million of the total $25 million increase.

(d) Goodwill
IFRS does not permit the amortisation of goodwill. Instead an annual review for impairment must be made. Goodwill amortised under UK GAAP of $181 million was reversed. This included goodwill amortisation relating to Banco Standard Chartered in Latin America and the Lebanon. The amortisation of the carrying amount of this goodwill was expected to be fully amortised by 2005 under UK GAAP. In the 2004 IFRS comparatives, an impairment charge of $67 million has been recorded to carry related goodwill at $nil.

(e) Joint venture
The Group adopted proportionate consolidation of its joint venture instead of equity accounting that was required under UK GAAP.

(f) Tax
The tax effect of the above adjustments has been recorded in the taxation line of the income statement.

Reconciliation of equity at 1 January 2004 – Group

	Notes	Share capital and share premium $million	Capital and capital redemption reserve $million	Premises revaluation $million	Own shares held in ESOP Trusts $million	Retained earnings $million	Minority interest $million	Total equity $million
UK GAAP		3,752	16	(2)	(60)	3,823	614	8,143
Dividends	i	–	–	–	–	439	–	439
Fixed assets	ii	–	–	81	–	(84)	–	(3)
Share awards	iii	–	–	–	–	(3)	–	(3)
Consolidation	iv	–	–	–	–	25	6	31
Tax	v	–	–	(22)	–	(9)	–	(31)
Other		–	–	–	–	(9)	–	(9)
IFRS		3,752	16	57	(60)	4,182	620	8,567

Notes to the Accounts continued

55. Transition to EU Adopted IFRS continued

Reconciliation of equity at 31 December 2004 – Group

	Notes	Share capital and share premium $million	Capital and capital redemption reserve $million	Premises revaluation $million	Own shares held in ESOP Trusts $million	Retained earnings $million	Minority interest $million	Total equity $million
UK GAAP		3,802	16	(5)	(8)	4,630	956	9,391
Dividends	i	–	–	–	–	532	–	532
Goodwill	vi	–	–	–	–	114	–	114
Fixed assets	ii	–	–	81	–	(84)	–	(3)
Share options	iii	–	–	–	–	16	–	16
Consolidation	iv	–	–	–	–	27	8	35
Tax	v	–	–	–	–	(4)	–	(4)
Other		–	–	–	–	(12)	–	(12)
IFRS		3,802	16	76	(8)	5,219	964	10,069

Reconciliation of balance sheet at 31 December 2004 – Group

	Notes	UK GAAP $million	Effect of transition to IFRS $million	IFRS $million	Reclassification to IFRS format $million	IFRS $million
Assets						
Cash and balances at central banks	iv, vii	2,269	1,691	3,960	–	3,960
Treasury bills and other eligible bills		4,425	–	4,425	(4,425)	–
Financial assets held at fair value through profit or loss		–	–	–	4,744	4,744
Loans and advances to banks	iv, vii	18,922	(1,540)	17,382	(695)	16,687
Loans and advances to customers	iv	71,596	563	72,159	(140)	72,019
Investment securities	iv	28,295	4,547	32,842	769	33,611
Equity shares		253	–	253	(253)	–
Interest in joint ventures	iv	187	(187)	–	–	–
Intangible assets	ii, iv, vi	1,900	453	2,353	–	2,353
Property, plant and equipment	ii, iv	844	(289)	555	–	555
Deferred tax assets		276	(4)	272	46	318
Other assets	ii, iv	11,453	144	11,597	–	11,597
Prepayments and accrued income	iv	1,268	12	1,280	–	1,280
Total assets		141,688	5,390	147,078	46	147,124
Liabilities						
Deposits by banks	iv	15,813	1	15,814	(652)	15,162
Customer accounts	iv	84,572	886	85,458	(365)	85,093
Financial liabilities at fair value through profit or loss		–	–	–	2,392	2,392
Debt securities in issue	iv	7,378	4,249	11,627	(622)	11,005
Current tax liabilities		295	–	295	–	295
Other liabilities	i, iv	16,066	(524)	15,542	(753)	14,789
Accruals and deferred income	iii, iv	1,262	59	1,321	–	1,321
Provisions for liabilities and charges	iv	59	2	61	–	61
Retirement benefit liabilities	iv	120	3	123	46	169
Other borrowed funds	iv	6,732	36	6,768	–	6,768
Total liabilities		132,297	4,712	137,009	46	137,055
Total parent company shareholders' equity		8,435	670	9,105	–	9,105
Minority interests		956	8	964	–	964
Total equity		9,391	678	10,069	–	10,069
Total equity and liabilities		141,688	5,390	147,078	46	147,124

55. Transition to EU Adopted IFRS continued

i Dividends

IFRS only permits the accrual of dividend liabilities when an obligation arises i.e. when declared. Under UK GAAP the final dividend was accrued in the period to which it related even if declared after year end. The effect is to reverse the final dividend accrual of $532 million at 31 December 2004 and $439 million at 1 January 2004.

ii Fixed assets

Capitalised software was classified as fixed assets under UK GAAP. $224 million was reclassified to intangible assets under IFRS requirements.

Under UK GAAP land associated with finance leased buildings was classified as fixed assets. IFRS requires leased land to be treated as an operating lease unless title transfers at the end of the lease. $85 million was reclassified from fixed assets to other assets.

iii Share awards

IFRS 2 requires the fair valuation of all share based payments for those awards made after November 2002 and had not vested at 1 January 2004. It also requires obligations to be recorded in equity for equity-settled awards rather than as liabilities. Accordingly, the obligations recorded in liabilities under UK GAAP have been reversed and replaced with credits to equity for fair values determined under IFRS 2.

iv Consolidation

UK GAAP permitted the presentation of certain securitisations in a linked net manner and a fund in which the Group has an investment was not required to be consolidated. IFRS does not permit net linked presentation and the investment fund was line by line consolidated.

The Group adopted proportionate consolidation of its joint venture in place of equity accounting that was required under UK GAAP.

Total assets increase by $5,281 million and total equity increased by $16 million.

v Tax

The tax effect of the above adjustments has been recorded.

vi Goodwill

IFRS does not permit the amortisation of goodwill. Instead an annual review for impairment must be made. Goodwill amortised under UK GAAP of $181 million was reversed. This included goodwill amortisation relating to Banco Standard Chartered in Latin America and the Standard Chartered Bank SAL in the Lebanon. The amortisation of the carrying amount of this goodwill was expected to be fully amortised by 2005 under UK GAAP. In the 2004 IFRS comparatives, an impairment charge of $67 million has been recorded to carry related goodwill at $nil.

vii Cash and cash equivalents

$1,614 million of restricted cash balances with central banks has been reclassified from loans and advances to banks to cash and balances with central banks. It also includes cheques in the course of collection.

Reclassification

On 12 May 2005 the Group presented its balance sheet restated under IFRS excluding IAS 32 and 39. The format of the balance sheet was similar to that used under UK GAAP. Subsequent clarification of the conventions of presenting balance sheets means the Group has made the following changes between lines (no measurement changes have been made):

- trading assets and assets designated as at fair value have been grouped in a single line called financial assets at fair value through profit or loss;
- treasury bills and equity shares have been included in investment securities if held at (amortised) cost or financial assets at fair value through profit or loss;
- trading liabilities and liabilities designated as at fair value have been grouped in a single line called financial liabilities at fair value through profit or loss; and
- deferred tax related to retirement benefits is now not netted with the retirement benefits liability and is now shown together with all other deferred tax balances.

Notes to the Accounts continued

55. Transition to EU Adopted IFRS continued

Reconciliation of equity at 1 January 2005 – Group

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and 39. The table below shows the effects of IAS 32 and 39 on the balance sheet at 1 January 2005:

	Notes	Share capital/ premium and redemption reserve $million	AFS reserves $million	Cash flow hedge reserve $million	Premises revaluation $million	Retained earnings $million	Minority interest $million	Total equity $million
IFRS (excluding IAS 32/39)		3,818	–	–	76	5,211	964	10,069
Debt/equity	i	(375)	–	–	–	20	994	639
Effective yield	ii	–	–	–	–	109	–	109
Derivatives/hedging	iii	–	–	61	–	58	(4)	115
Asset classification/fair values	iv	–	87	–	–	(27)	–	60
Other		–	–	–	–	(102)	–	(102)
Impairment	v	–	–	–	–	33	–	33
Tax	vi	–	(14)	(19)	–	(55)	–	(88)
IFRS		3,443	73	42	76	5,247	1,954	10,835

Reconciliation of balance sheet items at 1 January 2005 - Group

	IFRS (ex IAS 32/39) $million	Effect of IAS 32 /39 $million	IFRS $million
Assets			
Financial assets held at fair value	4,744	3,222	7,966
Derivative financial instruments	–	12,680	12,680
Loans and advances to banks	16,687	(179)	16,508
Loans and advances to customers	72,019	(88)	72,107
Investment securities	33,611	(1,783)	31,828
Other assets	11,597	(7,440)	4,157
Liabilities			
Deposits by banks	15,162	–	15,162
Customer accounts	85,093	(320)	84,773
Financial liabilities at fair value	2,392	1,316	3,708
Derivative financial instruments	–	12,024	12,024
Debt securities in issue	11,005	2	11,007
Current tax liabilities	295	1	296
Other liabilities	14,789	(7,262)	7,527
Accruals and deferred income	1,321	6	1,327
Provisions for liabilities and charges	61	–	61
Other borrowed funds	6,768	(649)	6,119

55. Transition to EU Adopted IFRS continued

i Debt/equity

The Group's £100 million 7 3/8 and £100 million 8 1/4 per cent irredeemable £1 preference shares were reclassified from equity to subordinated liabilities and other borrowed funds. At the same time £200 million 7.75 per cent Step-Up Notes 2022 and £300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities were reclassified as minority interests.

ii Effective yield

Loan origination costs that are expensed under UK GAAP have been capitalised and are amortised as part of the effective yield.

iii Derivatives

All derivatives are now recorded on balance sheet at fair value. Unrealised gains and losses that were not recognised under UK GAAP have been adjusted in reserves.

Trading derivative balances have been reclassified from other assets and liabilities under UK GAAP to a single derivatives line on the face of the balance sheet.

UK GAAP permitted netting of assets and liabilities where there was a legal right of offset. IFRS adds a condition that there must be an intention to settle net. The balance sheet has been grossed up where the netting requirements are not satisfied. A significant part of this is in the derivatives line where $7.6 billion was grossed up on transition.

iv Asset classification/fair values

On transition, IFRS permits designation of assets previously held at cost as available-for-sale or held at fair value through profit or loss. Reclassified assets have been revalued to fair value with the gains on available for sale assets deferring to reserves until maturity or sale and the losses on held at fair value through profit or loss to reserves on transition (and to profit or loss thereafter).

v Impairment

IFRS requires a time-value of money discount to be recorded on impaired loans. It does not permit general bad debt provisions, which has been replaced with a portfolio impairment provision.

vi Tax

The tax effect of the above adjustments has been recorded in the taxation line of the income statement.

Reconciliation of equity at 1 January 2004 – Company

	Notes	Share capital and share premium $million	Capital & redemption reserve $million	Revaluation reserve $million	Retained earnings $million	Total equity $million
UK GAAP		3,752	16	3,476	285	7,529
Dividends	i	–	–	–	439	439
Share options and own shares	ii	–	–	–	(71)	(71)
Revaluation of investments in subsidiaries	iii	–	–	(3,476)	–	(3,476)
Other		–	–	–	(37)	(37)
IFRS		3,752	16	–	616	4,384

Reconciliation of equity at 31 December 2004 – Company

	Notes	Share capital and share premium $million	Capital & redemption reserve $million	Revaluation reserve $million	Retained earnings $million	Total equity $million
UK GAAP		3,802	16	4,408	209	8,435
Dividends	i	–	–	–	532	532
Share options and own shares	ii	–	–	–	(71)	(71)
Revaluation of investments in subsidiaries	iii	–	–	(4,408)	–	(4,408)
Other		–	–	–	24	24
IFRS		3,802	16	–	694	4,512

Notes to the Accounts continued

55. Transition to EU Adopted IFRS continued

Reconciliation of balance sheet at 31 December 2004 – Company

		2004 UK GAAP $million	Effects of transition to IFRS $million	2004 IFRS $million
Non–current assets				
Investments in subsidiary undertakings	iii	10,240	(5,948)	4,292
Current assets				
Amounts owed by subsidiary undertakings	iii	631	1,590	2,221
Taxation		126	80	206
Other		–	7	7
		757	1,677	2,434
Creditors: amounts due within one year				
Proposed dividend	i	524	(524)	–
Amounts owed to subsidiary undertakings	ii	442	176	618
Other creditors, including taxation		8	–	8
		974	(348)	626
Net current liabilities/assets		(217)	2,025	1,808
Total assets less current liabilities		10,023	(3,923)	6,100
Creditors: amounts due after more than one year				
Undated subordinated loan capital		1,588	–	1,588
		8,435	(3,923)	4,512
Equity				
Share Capital and share premium		3,802	–	3,802
Reserves and retained earnings		4,633	(3,923)	710
Total equity		8,435	(3,923)	4,512

i Dividends
IFRS only permits the accrual of dividend liabilities when an obligation arises i.e. when declared. Under UK GAAP the final dividend was accrued in the period to which it related even if declared after year end. The effect is to reverse the final dividend accrual of $532 million at 31 December 2004 and $439 million at 1 January 2004.

ii Share options and own shares
IFRS 2 requires the fair valuation of all share based payments for those awards made after November 2002 and had not vested at 1 January 2004. It also requires obligations to be recorded in equity for equity-settled awards rather than as liabilities. All share based payments made in the Group are settled by reference to the Company's ordinary shares. Accordingly, the Company has recorded, on transition, an inter company receivable from subsidiaries and a corresponding credit to reserves.

All shares held under the Group's employee share schemes by the Company's employee share ownership trusts are deducted from the Company's equity under IFRS.

iii Revaluation of investments in subsidiaries
Under UK GAAP the Group held its investment in subsidiaries at their net asset value and recorded a revaluation reserve for adjustments. This has been reversed under IFRS, returning the investment in subsidiaries to cost, less impairment.

Loans to subsidiaries of a capital nature have been reclassified from investments in subsidiaries to amounts owed by subsidiaries.

Explanation of material adjustments to the cash flow statement
Under UK GAAP, the Company was not required to, and did not, prepare a cash flow statement. Deposits with a maturity of less than three months, including loans to subsidiaries which are repayable on demand, were excluded from cash under UK GAAP. These are reclassified as cash equivalents under IFRSs.

Reconciliation of equity at 1 January 2005 – Company
The Company has taken advantage of the transitional arrangements of IFRS 1 not to restate 2004 comparatives for IAS 32 and 39. On 1 January 2005 the Company's £100 million 7 $^3/_8$ and £100 million 8 $^1/_4$ per cent irredeemable £1 preference shares (with a carrying amount of $375 million) were reclassified from equity to subordinated liabilities and other borrowed funds.

56. UK and Hong Kong Accounting Requirements

On 1 January 2005 the Group converted from UK GAAP to IFRS adopted for use by the EU. The consolidated financial statements of the Group for the year ended 31 December 2005, including 2004 comparatives, have been prepared accordingly, except that the 2004 comparatives exclude the effects of IAS 32 and 39. Where applicable for 2004, the principles of UK GAAP have been applied. On 1 January 2005 Hong Kong GAAP adopted an accounting standard on financial instruments similar to IAS 39. There would be no material differences between the accounting conventions except as set out below:

Investments in Securities

2004 IFRS excluding IAS 32/39

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 income statement. Securities other than investment securities are classified as dealing securities and are stated at market value.

2004 Hong Kong GAAP

Under Hong Kong Statement of Standard 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 2004 comparative financial statements under Hong Kong SSAP24 there would have been a net charge to the profit and loss account for the year ended 31 December 2004 of $9 million, an increase in the book amount of investment in securities of $46 million as at 31 December 2004 and a credit to reserves of $32 million at 31 December 2004.