GROUP SUMMARY

The Group has delivered another set of strong results in the six months ended 30 June 2006. Operating income increased 27 per cent, or $876 million, to $4,112 million and operating profit before tax of $1,527 million was up 15 per cent over the same period in 2005. Normalised earnings per share increased by 12 per cent to 84.1 cents. (Refer to note 7 on page 41).

The Group has owned SCFB since 15 April 2005. On 28 November 2005 the assets and businesses of the Standard Chartered Bank branch in Korea were transferred to SCFB.

The impact of the post acquisition results of SCFB in the 2005 results, together with the transfer of the branch, affect the comparability of the results for the six months to 30 June 2006 with the equivalent period in 2005. The 2005 results for "Korea" reflect a full six months of the Standard Chartered Bank branch together with the post acquisition results of SCFB. To facilitate effective comparison, the table below and most of the subsequent discussion, segments the results of the Korea business from the results of the rest of the Group.

	6 months ended 30.06.06			6 months ended 30.06.05*			6 months ended 31.12.05*		
	Korea $million	**Ex Korea $million**	**As reported $million**	Korea $million	Ex Korea $million	As reported $million	Korea $million	Ex Korea $million	As reported $million
Net interest income	**548**	**1,962**	**2,510**	235	1,737	1,972	590	1,773	2,363
Fees and commissions income, net	**68**	**826**	**894**	29	698	727	16	752	768
Net trading income	**51**	**480**	**531**	34	375	409	29	331	360
Other operating income	**67**	**110**	**177**	11	117	128	13	121	134
	186	**1,416**	**1,602**	74	1,190	1,264	58	1,204	1,262
Operating income	**734**	**3,378**	**4,112**	309	2,927	3,236	648	2,977	3,625
Operating expenses	**(460)**	**(1,765)**	**(2,225)**	(167)	(1,541)	(1,708)	(465)	(1,638)	(2,103)
Operating profit before impairment losses	**274**	**1,613**	**1,887**	142	1,386	1,528	183	1,339	1,522
Impairment losses on loans and advances	**(40)**	**(309)**	**(349)**	(34)	(160)	(194)	(27)	(98)	(125)
Other impairment	**–**	**(8)**	**(8)**	–	(1)	(1)	–	(49)	(49)
Loss from associate	**–**	**(3)**	**(3)**	–	–	–	–	–	–
Operating profit before taxation	**234**	**1,293**	**1,527**	108	1,225	1,333	156	1,192	1,348

* Restated. See note 29 on page 57.

Operating Income and Profit Excluding Korea

Operating income grew 15 per cent, or $451 million, to $3,378 million over the equivalent prior year period, Consumer Banking and Wholesale Banking each delivering double-digit income growth. The growth in the first half reflected the effects of prior year investment with good growth being achieved across an increasingly broad range of geographies, products and customer segments.

Net interest income grew $225 million, or 13 per cent, to $1,962 million. Net interest margin was 2.5 per cent, down from 2.6 per cent in the first half of last year reflecting continued pressure on asset margins, particularly mortgages.

Fees and commissions increased by $128 million, or 18 per cent, to $826 million. This increase was driven mainly by higher volumes in wealth management, cash management and global markets products across most markets.

Net trading income grew by $105 million, or 28 per cent, to $480 million driven in part due to higher volumes of foreign exchange dealing in Wholesale Banking. Other operating income decreased $7 million, or six per cent, to $110 million.

Operating expenses grew $224 million, or 15 per cent, to $1,765 million, with the normalised cost income ratio falling to 52.2 per cent compared to 52.6 per cent in the first half last year. Expense growth was broadly in line with income growth with technology production and operations expenses held flat. This allowed both Consumer Banking and Wholesale Banking businesses to continue to invest in new products, infrastructure and sales capability to support double-digit operating income growth.

Operating profit before impairment increased $227 million, or 16 per cent, to $1,613 million.

Impairment losses on loans and advances increased by $149 million, or 93 per cent, to $309 million. This was primarily due to the increase in the impairment charge for the Consumer Banking unsecured portfolio in Taiwan. Wholesale Banking continued to benefit from a benign credit environment in most markets.

Operating profit before taxation grew $68 million, or six per cent, to $1,293 million.

Korea Operating Income and Profit

The results for Korea for the first half of 2005 only include SCFB for less than half of that period. It is therefore more useful to compare the current period's results for Korea against the second half of 2005. Operating income grew by $86 million, or 13 per cent, to $734 million driven by strong income growth in both the Consumer and Wholesale businesses. Operating expenses decreased slightly by one per cent to $460 million. Operating profit before impairment consequently increased by 50 per cent, or $91 million. Loan impairment increased by 48 per cent, or $13 million, with most of the increment in Consumer Banking. Operating profit increased by 50 per cent, or $78 million.

CONSUMER BANKING

To provide meaningful comparison Consumer Banking excluding Korea is compared against the first half of 2005 whilst Consumer Banking in Korea is shown against the second half of 2005.

Consumer Banking Excluding Korea

Operating income was up $151 million, or 10 per cent, to $1,665 million, with growth spread across a broad range of markets. Hong Kong and Singapore achieved growth of around four per cent and these two markets now account for 41 per cent of total income compared to 43 per cent in the equivalent period last year. Outside these two markets income grew 14 per cent, with particularly strong growth in Middle East and Other South Asia (MESA) which rose by 34 per cent.

Income growth was driven primarily by wealth management products and the Small and Medium Enterprise (SME) customer segment. Income from deposits grew significantly reflecting both increased volumes of customer deposits and improved margins. Assets remained broadly flat, with a decline in mortgages offsetting increases in SME and unsecured lending.

Expenses grew $67 million or nine per cent to $832 million. This increase included expenditure to support the growth of China and Japan, and in our private banking and consumer finance activities. Investment was also made to enhance product distribution capabilities. The impact on expenses of increased product volumes has been largely offset by gains from operational efficiencies.

Operating profit before impairment grew $84 million or 11 per cent.

Impairment losses more than doubled, by $213 million to $372 million. The majority of this rise came from the unsecured portfolio in Taiwan, where the banking industry as a whole has been adversely affected by a sharp increase in customer default rates. The loan impairment charge in Taiwan increased to $203 million in the first half of 2006 from $75 million in the second half of 2005 (and $23 million in the first half of 2005). These provisions include a discount on the original interest rate on the restructured portfolio of $28 million. Recent indications are that conditions are continuing to improve and it is expected that there will be a sharp reduction in the loan impairment charge in Taiwan in the second half of the year. However, given recent and prospective regulatory changes, there remains considerable uncertainty about the evolution of the consumer credit market. Impairment losses outside Taiwan increased by $33 million or 24 per cent, reflecting changes in the mix and maturity of the portfolio, plus some deterioration in credit quality in Thailand and Indonesia due to the economic environment.

Consumer Banking operating profit fell $129 million, or 22 per cent, to $461 million compared to the first half of 2005. This fall was primarily due to the loan impairment charges taken in Taiwan which more than offset the increase in operating profit before impairment.

Hong Kong delivered an increase in operating profit of nine per cent to $280 million. Income growth was four per cent whilst expenses rose by one per cent. Operating profit before impairment profit grew six per cent. New products such as the Marathon Savings Account, and increased marketing activity, together with better margins, drove double-digit operating income growth in wealth management and deposit balances. The SME segment also recorded double-digit income growth with good prospects for the future. The loan impairment charge decreased 21 per cent or $6 million compared to the prior period.

In Singapore, income was up four per cent on the first half of 2005, driven by strong growth in wealth management products and the SME segment. There was continued product innovation through the period including, for example, the launch of foreign currency and SME saver accounts. In an intensely competitive market, mortgage margins remained under pressure. Expenses grew six per cent to $66 million driven by investment in new products. Loan impairment decreased six per cent reflecting a broadly benign consumer credit environment. Operating profit increased five per cent to $88 million. Assets were down seven per cent with increases in SME lending offset by a decline in mortgage assets.

In Malaysia income increased 11 per cent to $112 million. Strong income growth in wealth management and the SME segment, underpinned by the success of new product launches, including Islamic SME products, more than offset a lower performance in mortgages, where income fell due to margin compression. Operating expenses increased $3 million or seven per cent to $49 million. Loan impairment reduced six per cent reflecting the benefit of provision releases. Operating profit increased 24 per cent to $47 million.

In Other Asia Pacific, income growth of nine per cent was driven by strong balance sheet growth in all products. In China income more than doubled with good growth in the SME segment. Indonesia and Thailand also delivered double-digit income growth. These performances were offset by subdued income performance in Taiwan. Operating expenses increased by 15 per cent reflecting investment for future growth. Loan impairment increased due primarily to Taiwan, but also reflecting slightly more difficult credit conditions in Thailand and Indonesia.

India's income increased 10 per cent over the equivalent period driven by growth in wealth management products and the SME segment. This was partially offset by a decline in mortgage income. Investment in new product and sales capabilities was achieved within expense growth of five per cent due to redeployment of resources and other efficiency initiatives.

Operating income in MESA increased by 34 per cent to $238 million. This strong performance was led by wealth management, credit cards and the SME segment. Investments targeted at infrastructure and distribution channels to sustain good income growth increased expenses by 38 per cent to $116 million. Loan impairment increased 14 per cent to $16 million. Assets grew nine per cent.

In Africa, operating profit grew 19 per cent to $25 million as a result of income growth of three per cent and a reduction in expenses of six per cent; wealth management income grew rapidly driven by new product launches and a new sales model, whilst expenses were reduced as a result of productivity gains and disciplined cost control. Loan impairment increased to $9 million. Assets grew by 30 per cent driven by unsecured lending.

CONSUMER BANKING continued

The Americas, UK and Group Head Office saw an increase in operating profit from $5 million to $11 million, driven primarily by higher income from the Jersey business.

Korea Consumer Banking

Consumer Banking's results in Korea are compared to the second half of 2005. On this basis operating income increased nine per cent to $530 million driven by wealth management products and the SME segment. Product innovation in wealth management attracted new accounts and fresh funds, with the new e-Click product attracting over 250,000 new accounts.

There was a decline in mortgage margins due to a combination of the interest rate environment and competitive activity. Expenses were held broadly flat compared to the previous period. Operating profit before impairment increased by $46 million or 43 per cent. Loan impairment increased $11 million to $33 million. Assets have grown five per cent driven by mortgages and unsecured lending.

The following tables provide an analysis of operating profit by geographic segment for Consumer Banking:

	6 months ended 30.06.06										
	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**	**Consumer Banking Total Ex Korea $million**	**Consumer Banking Total $million**
Operating Income	**505**	**170**	**112**	**530**	**317**	**158**	**238**	**128**	**37**	**1,665**	**2,195**
Expenses	**(203)**	**(66)**	**(49)**	**(378)**	**(186)**	**(90)**	**(116)**	**(94)**	**(28)**	**(832)**	**(1,210)**
Loan impairment	**(22)**	**(16)**	**(16)**	**(33)**	**(275)**	**(20)**	**(16)**	**(9)**	**2**	**(372)**	**(405)**
Operating profit	**280**	**88**	**47**	**119**	**(144)**	**48**	**106**	**25**	**11**	**461**	**580**

	6 months ended 30.06.05										
	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	Consumer Banking Total Ex Korea $million	Consumer Banking Total $million
Operating Income	485	163	101	209	292	143	177	124	29	1,514	1,723
Expenses	(201)	(62)	(46)	(123)	(162)	(86)	(84)	(100)	(24)	(765)	(888)
Loan impairment	(28)	(17)	(17)	(34)	(53)	(27)	(14)	(3)	–	(159)	(193)
Operating profit	256	84	38	52	77	30	79	21	5	590	642

	6 months ended 31.12.05										
	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	Consumer Banking Total Ex Korea $million	Consumer Banking Total $million
Operating Income*	491	161	109	488	319	143	202	134	32	1,591	2,079
Expenses	(214)	(64)	(49)	(382)	(180)	(93)	(98)	(105)	(28)	(831)	(1,213)
Loan impairment	(6)	(13)	(20)	(22)	(113)	(29)	(19)	(10)	–	(210)	(232)
Other impairment	–	–	–	–	–	–	–	(3)	–	(3)	(3)
Operating profit	271	84	40	84	26	21	85	16	4	547	631

* As more fully explained in note 2 on page 33 and note 29 on page 57, internal income has been restated. The impact is to reduce Consumer Banking total operating income by $5 million in the second half of 2005 with a corresponding increase in Wholesale Banking.

CONSUMER BANKING continued

An analysis of Consumer Banking income by product is set out below:

	6 months ended 30.06.06			6 months ended 30.06.05*			6 months ended 31.12.05*		
	Total	**Korea**	**Ex Korea**	Total	Korea	Ex Korea	Total	Korea	Ex Korea
Operating Income by Product	**$million**	**$million**	**$million**	$million	$million	$million	$million	$million	$million
Cards and Loans	**824**	**180**	**644**	706	88	618	822	186	636
Wealth Management and Deposits	**926**	**179**	**747**	634	53	581	808	159	649
Mortgages and Auto Finance	**388**	**157**	**231**	350	66	284	408	141	267
Other	**57**	**14**	**43**	33	2	31	41	2	39
	2,195	**530**	**1,665**	1,723	209	1,514	2,079	488	1,591

* Restated. See note 2 on page 33.

Product Performance Excluding Korea

Credit cards and personal loans delivered a $26 million, or four per cent, increase in operating income to $644 million. In Hong Kong new credit card launches, including co-branded, helped increase customer balances over the equivalent period last year. Good asset growth was also seen in Pakistan, India and Thailand, all of whom recorded double-digit growth in unsecured outstandings.

In wealth management, deposit growth and improved margins have been the primary drivers of a $166 million, or 29 per cent, growth in income to $747 million. This improvement was seen in most countries, with strong contributors being Hong Kong, Singapore, India and the MESA region. Deposit product innovation, such as an Islamic savings account in MESA, has helped attract new customers and funds in a number of markets.

Mortgage margins continued to be under pressure in a number of markets, driven by the rising interest rate environment and competitor pricing. Mortgage outstandings fell $1,412 million or six per cent to $20,799 million. These effects served to reduce mortgage and auto finance income by $53 million or 19 per cent to $231 million. In several markets, such as Hong Kong and Singapore, product innovation and repricing actions have helped mitigate the effects of margin compression, although the near term outlook continues to be challenging.

Korea Product Performance

Comparisons are against the second half of 2005.

Wealth management and deposits income grew 13 per cent or $20 million to $179 million on the back of new product launches. Overall credit card operating income fell three per cent from the previous period. Mortgage income grew 11 per cent or $16 million, with growth in outstandings more than offsetting the impact of margin pressure.

WHOLESALE BANKING

As with Consumer Banking, the performance of Wholesale Banking excluding Korea is compared to the first half of 2005, whilst Wholesale Banking in Korea is compared to the second half of 2005.

Wholesale Banking Excluding Korea

Wholesale Banking had a very strong first half with the client focused strategy again delivering significant income growth across multiple geographies, products and segments.

Income grew $300 million, or 21 per cent, to $1,713 million underpinned by client income growth of 21 per cent. Client income continues to comprise around four fifths of total income and is the key driver of sustained growth. The pace of income growth in products such as foreign exchange, debt capital markets syndications, derivatives and options, reflects the significant investments in previous years.

Operating expense growth was 20 per cent or $157 million. Investment spend was targeted at expanding product reach and capability, upgrading systems infrastructure, expanding client coverage and reinforcing compliance and control.

Operating profit before impairment losses grew 22 per cent or $143 million.

The net loan impairment release was $63 million compared to a net charge of $1 million in the equivalent period last year. This net release reflected the continued benign credit environment, with new provisions of only $31 million, and continued success in achieving recoveries.

WHOLESALE BANKING continued

The following tables provide an analysis of operating profit by geographic segment for Wholesale Banking:

	6 months ended 30.06.06										
	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	Wholesale Banking Total Ex Korea $million	Wholesale Banking Total $million
Operating Income	**289**	**120**	**76**	**204**	**265**	**222**	**244**	**187**	**310**	**1,713**	**1,917**
Expenses	**(141)**	**(71)**	**(30)**	**(82)**	**(150)**	**(70)**	**(109)**	**(107)**	**(255)**	**(933)**	**(1,015)**
Loan impairment	**30**	**(3)**	**4**	**(7)**	**(2)**	**13**	**2**	**(8)**	**27**	**63**	**56**
Other impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**(2)**	**(8)**	**(8)**
Operating profit	**178**	**46**	**50**	**115**	**113**	**165**	**137**	**66**	**80**	**835**	**950**

	6 months ended 30.06.05										
	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	Wholesale Banking Total Ex Korea $million	Wholesale Banking Total $million
Operating Income*	265	98	55	100	232	159	210	131	263	1,413	1,513
Expenses	(116)	(61)	(27)	(44)	(134)	(57)	(74)	(95)	(212)	(776)	(820)
Loan impairment	(41)	(17)	3	–	64	4	(1)	(27)	14	(1)	(1)
Other impairment	(1)	–	–	–	–	1	–	–	(1)	(1)	(1)
Operating profit	107	20	31	56	162	107	135	9	64	635	691

	6 months ended 31.12.05										
	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	Wholesale Banking Total Ex Korea $million	Wholesale Banking Total $million
Operating Income*	243	92	70	160	214	148	223	164	232	1,386	1,546
Expenses	(118)	(59)	(28)	(83)	(134)	(70)	(83)	(99)	(216)	(807)	(890)
Loan impairment	(42)	4	4	(5)	53	2	43	(3)	51	112	107
Other impairment	–	–	–	–	–	–	–	(8)	(2)	(10)	(10)
Operating profit	83	37	46	72	133	80	183	54	65	681	753

* As more fully explained in note 2 on page 33 and note 29 on page 57, internal income has been restated. The impact is to increase Wholesale Banking total operating income by $5 million in the second half of 2005 with a corresponding decrease in Consumer Banking.

When looking at the performance of Wholesale Banking on a geographic basis it is important to note that it is a network business. This means the geographic segmentation can give a somewhat imperfect view of the relative performance of different parts of the business.

In Hong Kong, income grew $24 million, or nine per cent, to $289 million, with a sharp 47 per cent increase in global markets' sales, particularly in derivatives and foreign exchange. Cash management benefited from the favourable interest rate environment and custody from active equity markets. Expenses grew 22 per cent to $141 million with most of this increase directed towards building the sales force, product capabilities, and deepening income generation from existing client relationships. Recoveries drove a sharp improvement in the loan impairment charge with a net release of $30 million.

WHOLESALE BANKING continued

Income in Singapore was up 22 per cent to $120 million. Cash management benefited from the interest rate environment and helped to deliver 25 per cent client income growth. Global markets' sales were up 37 per cent driven by derivatives and foreign exchange products together with strong contributions from corporate finance and syndications. Much of this growth came from global corporates. Expenses grew 16 per cent to $71 million reflecting increased investments in product and sales capabilities to sustain the strong client income momentum.

In Malaysia, income increased 38 per cent to $76 million with strong growth in cash management and foreign exchange, particularly in the local corporate segment. Expenses increased 11 per cent to $30 million.

Other Asia Pacific delivered strong income growth of 14 per cent to $265 million, with expenses rising 12 per cent, to $150 million. Operating profit before impairment increased 17 per cent or $17 million. Loan impairment was only $2 million but in the absence of the significant loan impairment releases and recoveries seen last year, operating profit was lower by 30 per cent at $113 million.

India delivered operating income growth of $63 million or 40 per cent to $222 million. Operating income was driven by cash management, trade finance, derivatives and foreign exchange, and corporate finance, and also benefited from legal recoveries. Expenses increased 23 per cent with investment in new products, infrastructure and sales. Loan impairment benefited from the benign credit environment, with recoveries and releases contributing to a net credit of $13 million. Operating profit increased 54 per cent.

Operating income in MESA rose 16 per cent to $244 million. Client income grew 23 per cent driven by a strong performance in cash management. Corporate finance and strong interest rate derivatives performance also contributed to income growth. Investments in staff and in infrastructure to support the double-digit income growth increased expenses 47 per cent to $109 million. Operating profit in MESA grew by one per cent to $137 million.

In Africa, income at $187 million was up 43 per cent on the prior period. Operating income improvements were driven by product sales and strong trading results from asset and liability management (ALM). Client income growth was particularly strong in Kenya, Ghana and Nigeria. Expenses increased 13 per cent. Operating profit increased $57 million to $66 million. Africa also benefited from the absence of the hyperinflationary charge of $44 million taken in the first half of 2005.

Operating income in the Americas, UK and Group Head Office increased by 18 per cent to $310 million. Expenses grew by 20 per cent reflecting investment in products and sales. Strong loan recoveries helped drive operating profit up 25 per cent.

Korea Wholesale Banking

Wholesale Banking's results in Korea are compared to the second half of 2005. Operating income increased by 28 per cent and operating profit increased by 60 per cent to $115 million. The increase in operating income was primarily driven by trade and lending and by global markets' products, particularly derivatives and foreign exchange.

An analysis of Wholesale Banking income by product is set out below:

	6 months ended 30.06.06			6 months ended 30.06.05*			6 months ended 31.12.05*		
	Total	**Korea**	**Ex Korea**	Total	Korea	Ex Korea	Total	Korea	Ex Korea
Operating Income by Product	**$million**	**$million**	**$million**	$million	$million	$million	$million	$million	$million
Trade and Lending	**511**	**77**	**434**	438	33	405	442	45	397
Global Markets**	**925**	**86**	**839**	756	58	698	681	65	616
Cash Management and Custody	**481**	**41**	**440**	319	9	310	423	50	373
	1,917	**204**	**1,713**	1,513	100	1,413	1,546	160	1,386

* Restated. See note 2 on page 33.

** Global markets comprises the following businesses: derivatives and foreign exchange, debt capital markets, corporate finance and ALM.

Product Performance Excluding Korea

Trade and lending income increased seven per cent to $434 million. Trade balances grew, with a double-digit increase in volumes, more than offsetting the impact of tightening margins whilst lending income was broadly flat due to margin compression and tight discipline on asset growth.

Global markets' income grew strongly by $141 million or 20 per cent to $839 million. Rates and foreign exchange sales benefited from a more sophisticated suite of products aided by market volatility resulting in increased penetration amongst local corporates. The debt capital markets business grew significantly as both product and distribution capability was expanded. In addition corporate finance achieved good growth. ALM income was down over the equivalent period.

Cash management and custody income was up 42 per cent at $440 million. The drivers of this increase were both increased balances, up almost 25 per cent year on year, as well as improved margins in a higher rate environment.

RISK

Through its risk management structure the Group seeks to manage efficiently the core risks: credit, market, country and liquidity risk. These arise directly through the Group's commercial activities whilst compliance and regulatory risk, operational risk and reputational risks are normal consequences of any business undertaking.

The basic principles of risk management followed by the Group include:

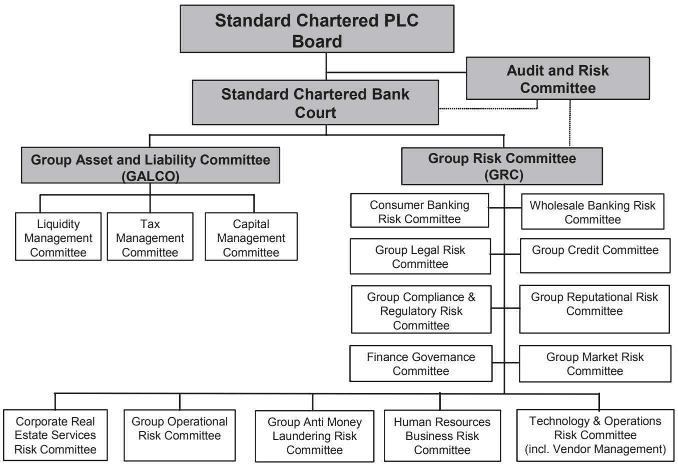
- ensuring that business activities are controlled on the basis of risk adjusted return;
- managing risk within agreed parameters with risk quantified wherever possible;
- assessing risk at the outset and throughout the time that the Group continues to be exposed to it;
- abiding by all applicable laws and regulations and good governance standards in every country in which the Group does business;
- applying high and consistent ethical standards to the Group's relationships with all customers, employees and other stakeholders; and
- undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

Risk Management Framework

Ultimate responsibility for the effective management of risk rests with the Company's Board. Acting with authority delegated by the Board, the Audit and Risk Committee (ARC), whose members are all independent Non-Executive Directors of the Company, reviews specific risk areas and monitors the activities of the Group Risk Committee (GRC) and the Group Asset and Liability Committee (GALCO).

GRC is responsible for credit risk, market risk, operational risk, compliance and regulatory risk, legal risk and reputational risk. GALCO is responsible for liquidity risk, structural interest rate and foreign exchange exposures, and for capital ratios.

The following chart shows the relationship between GRC and the Group's key risk committees.



All the Group Executive Directors (GEDs) of Standard Chartered PLC, directors of Standard Chartered Bank and the Group Head of Risk and Group Special Asset Management (Group Head of Risk) are members of the GRC. This Committee is chaired by the Group Head of Risk. The GRC is responsible for agreeing Group standards for risk measurement and management, and also delegating authorities and responsibilities to risk committees and the Group and Regional Credit Committees and Risk Officers.

The committee process is designed to ensure that standards and policies are cascaded down through the organisation from the Board through the GRC and the GALCO to the functional, regional and country level committees. Key information is communicated through the country, regional and functional committees to Group so as to provide assurance that standards and policies are being followed.

The Group Finance Director and the Group Head of Risk manage a risk function that is separate from the business line which:

- recommends Group standards and policies for risk measurement and management;
- monitors and reports Group risk exposures for country, credit, market and operational risk;
- approves market risk limits and monitors exposure;
- sets country risk limits and monitors exposure;
- chairs the credit committee and delegates credit authorities;
- validates risk models; and
- recommends risk appetite and strategy.

Individual GEDs are accountable for risk management in their businesses and support functions, and for countries where they have governance responsibilities. This includes:

- implementing the policies and standards as agreed by the GRC across all business activity;
- managing risk in line with appetite levels agreed by the GRC; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policy.

The Group's Risk Management Framework identifies 18 risk types, which are managed by designated Risk Type Owners (RTOs), who are all approved persons under the FSA regulatory framework and who have responsibility for setting minimum standards and governance and assurance processes. The RTOs report up through specialist risk committees to the GRC, or in the case of Liquidity Risk, to the GALCO.

The Group Finance Director and the Group Head of Risk, together with Group Internal Audit, provide assurance that risk is being measured and managed in accordance with the Group's standards and policies.

RISK continued

Credit Risk Management

Credit risk is the risk that a counterparty will not settle its obligations in accordance with agreed terms.

Credit exposures include individual borrowers and connected groups of counterparties and portfolios in the banking and trading books.

The GRC has clear responsibility for credit risk. Standards are approved by the GRC, which oversees the delegation of credit authorities through the Group Finance Director to the Group Head of Risk, the Group and Regional Credit Committees and independent Risk Officers at Group and at the Wholesale Banking and Consumer Banking business levels.

Procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals. The Risk Officers are located in the businesses to maximise the efficiency of decision making, but have a reporting line which is separate from the business lines into the Group Head of Risk.

The businesses working with the Risk Officer take responsibility for managing pricing for risk, portfolio diversification and overall asset quality within the requirements of Group standards, policies and business strategy.

Wholesale Banking

Within the Wholesale Banking business, a numerical grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure, with customers analysed against a range of quantitative and qualitative measures. There is a clear segregation of duties with loan applications being prepared separately from the approval chain. Significant exposures are reviewed and approved centrally through a Group or Regional level Credit Committee. These Committees are responsible to the GRC.

Consumer Banking

For Consumer Banking, standard credit application forms are generally used, which are processed in central units using manual or automated approval processes as appropriate to the customer, the product or the market. As with Wholesale Banking, origination and approval roles are segregated.

Loan Portfolio

Total loans and advances to customers have increased by 12 per cent to $120 billion over the equivalent period last year.

The Wholesale Banking portfolio is well diversified across both geography and industry, with no significant concentration to sub-industry classification levels under manufacturing, financing, insurance and business services, commerce or transport, storage and communication.

RISK continued

	30.06.06									
	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
Loans to individuals										
Mortgages	11,281	3,903	2,562	23,240	1,096	1,440	159	214	144	44,039
Other	2,132	1,044	725	4,727	3,114	924	2,160	442	148	15,416
Small and medium enterprises	861	1,651	840	4,754	908	389	90	116	–	9,609
Consumer Banking	14,274	6,598	4,127	32,721	5,118	2,753	2,409	772	292	69,064
Agriculture, forestry and fishing	22	24	43	9	96	83	71	150	378	876
Construction	72	33	23	141	85	248	290	48	18	958
Commerce	1,291	1,132	328	278	826	469	1,530	359	1,343	7,556
Electricity, gas and water	347	16	61	50	257	26	228	54	684	1,723
Financing, insurance and business services	2,535	1,460	687	1,748	1,178	466	1,048	119	1,589	10,830
Governments	–	2,625	3,199	15	155	–	84	–	282	6,360
Mining and quarrying	–	–	8	64	244	28	207	104	863	1,518
Manufacturing	1,773	360	402	2,865	3,053	1,310	1,392	491	2,191	13,837
Commercial real estate	1,249	589	7	737	549	238	3	7	7	3,386
Transport, storage and communication	567	243	106	170	231	101	647	138	1,661	3,864
Other	112	115	39	–	13	3	266	24	55	627
Wholesale Banking	7,968	6,597	4,903	6,077	6,687	2,972	5,766	1,494	9,071	51,535
Portfolio impairment provision	(54)	(26)	(23)	(74)	(198)	(30)	(32)	(10)	(7)	(454)
Total loans and advances to customers	22,188	13,169	9,007	38,724	11,607	5,695	8,143	2,256	9,356	120,145
Total loans and advances to banks	3,131	1,155	153	1,835	3,433	285	1,501	563	5,586	17,642

Total loans and advances to customers include $595 million held at fair value through profit or loss. Total loans and advances to banks include $892 million held at fair value through profit or loss account.

RISK continued

	30.06.05									
	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
Loans to individuals										
Mortgages	12,599	4,416	2,559	18,792	895	1,390	81	85	186	41,003
Other	1,967	1,087	538	3,691	2,943	1,269	2,052	413	216	14,176
Small and medium enterprises	761	1,618	705	4,475	315	281	84	92	–	8,331
Consumer Banking	15,327	7,121	3,802	26,958	4,153	2,940	2,217	590	402	63,510
Agriculture, forestry and fishing	-	19	54	–	78	15	20	146	283	615
Construction	64	240	10	14	78	99	202	47	31	785
Commerce	1,765	948	189	347	805	270	1,373	339	894	6,930
Electricity, gas and water	507	21	90	76	233	108	185	31	636	1,887
Financing, insurance and business services	1,450	909	628	2,467	980	605	1,555	170	1,956	10,720
Governments	–	1,520	1,270	51	228	-	72	-	506	3,647
Mining and quarrying	–	31	30	5	226	9	133	106	729	1,269
Manufacturing	1,531	288	273	1,382	2,577	837	1,427	423	2,220	10,958
Commercial real estate	1,181	629	1	1,116	474	9	1	33	1	3,445
Transport, storage and communication	296	299	75	211	269	220	349	127	1,051	2,897
Other	18	68	52	441	111	59	201	12	70	1,032
Wholesale Banking	6,812	4,972	2,672	6,110	6,059	2,231	5,518	1,434	8,377	44,185
Portfolio impairment Provision	(37)	(29)	(23)	(61)	(70)	(33)	(29)	(10)	(22)	(314)
Total loans and advances to customers	22,102	12,064	6,451	33,007	10,142	5,138	7,706	2,014	8,757	107,381
Total loans and advances to banks	3,667	2,956	474	2,804	1,596	195	1,166	199	7,898	20,955

A reclassification of $997 million from Other to Small and medium enterprises that was made at 30 June 2005 has been reversed.

Total loans and advances to customers include $871 million held at fair value through profit or loss. Total loans and advances to banks include $1,081 million held at fair value through profit or loss account.

RISK continued

	31.12.05									
	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
Loans to individuals										
Mortgages	12,051	4,129	2,532	22,522	996	1,469	132	88	152	44,071
Other	2,154	1,043	663	3,954	3,145	947	2,001	525	158	14,590
Small and medium enterprises	791	1,673	794	4,727	989	332	78	107	–	9,491
Consumer Banking	14,996	6,845	3,989	31,203	5,130	2,748	2,211	720	310	68,152
Agriculture, forestry and fishing	24	–	44	9	110	17	25	183	234	646
Construction	91	48	11	90	64	139	223	41	6	713
Commerce	2,004	958	325	237	598	392	1,324	420	819	7,077
Electricity, gas and water	290	1	65	17	284	49	180	12	664	1,562
Financing, insurance and business services	1,425	925	589	1,135	1,065	502	1,235	168	1,842	8,886
Governments	–	2,323	1,976	66	101	–	70	7	331	4,874
Mining and quarrying	24	11	8	19	140	10	185	75	656	1,128
Manufacturing	1,223	302	344	1,702	2,955	1,019	1,210	402	2,186	11,343
Commercial real estate	1,194	834	3	797	555	61	5	13	18	3,480
Transport, storage and communication	320	235	240	80	304	108	452	174	1,477	3,390
Other	50	85	49	750	11	5	257	46	40	1,293
Wholesale Banking	6,645	5,722	3,654	4,902	6,187	2,302	5,166	1,541	8,273	44,392
Portfolio impairment provision	(57)	(26)	(30)	(68)	(107)	(33)	(29)	(10)	(7)	(367)
Total loans and advances to customers	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Total loans and advances to banks	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959

Total loans and advances to customers include $386 million held at fair value through profit or loss. Total loans and advances to banks include $1,258 million held at fair value through profit or loss account.

RISK continued

Maturity analysis

Approximately 49 per cent of the Group's loans and advances are short term having a contractual maturity of one year or less. The Wholesale Banking portfolio is predominately short term, with 79 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 64 per cent of the portfolio is in the mortgage book, traditionally longer term in nature. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, in the normal course of business they may be renewed and repaid over longer terms.

	30.06.06			
	One year or less $million	**One to five years $million**	**Over five years $million**	**Total $million**
Consumer Banking				
Mortgages	**3,513**	**9,201**	**31,325**	**44,039**
Other	**8,527**	**5,882**	**1,007**	**15,416**
SME	**5,827**	**2,038**	**1,744**	**9,609**
Total	**17,867**	**17,121**	**34,076**	**69,064**
Wholesale Banking	**40,942**	**7,443**	**3,150**	**51,535**
Portfolio impairment provision				**(454)**
Loans and advances to customers	**58,809**	**24,564**	**37,226**	**120,145**

	30.06.05			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking				
Mortgages	5,016	10,432	25,555	41,003
Other	7,259	5,079	1,838	14,176
SME	6,117	415	1,799	8,331
Total	18,392	15,926	29,192	63,510
Wholesale Banking	32,898	7,572	3,715	44,185
Portfolio impairment provision				(314)
Loans and advances to customers	51,290	23,498	32,907	107,381

	31.12.05			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking				
Mortgages	4,756	9,598	29,717	44,071
Other	8,352	4,666	1,572	14,590
SME	5,883	1,687	1,921	9,491
Total	18,991	15,951	33,210	68,152
Wholesale Banking	33,450	7,246	3,696	44,392
Portfolio impairment provision				(367)
Loans and advances to customers	52,441	23,197	36,906	112,177

RISK continued

Problem Credit Management and Provisioning

Consumer Banking

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days (60 days for mortgages) are considered delinquent. These accounts are closely monitored and subject to a special collections process. Accounts that are overdue by more than 90 days are considered non-performing. For mortgages those accounts more than 150 days past due are considered non-performing.

The process used for raising provisions is dependant on the product. For mortgages, individual provisions are generally raised at 150 days past due, and for other secured products at 90 days past due, based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows. For unsecured products individual provisions are raised, and loans are charged off at 150 days past due.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified individually, are known by experience to be present in the loan portfolio including performing loans and loans overdue. The provision is set with reference to past experience using flow rate methodology as well as taking account of judgemental factors such as the economic and business environment in our core markets, and the trends in a range of portfolio indicators.

The cover ratio reflects the extent that the gross non-performing loans are covered by the individual and portfolio impairment provisions. The balance of non-performing loans not covered by impairment provisions reflects the level of collateral held and/or the estimated net value of any recoveries.

The following tables set out the total non-performing portfolio in Consumer Banking:

	30.06.06									
	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**
Loans and advances Gross non-performing	**102**	**113**	**186**	**683**	**157**	**48**	**26**	**17**	**20**	**1,352**
Individual impairment provision	**(27)**	**(33)**	**(67)**	**(287)**	**(94)**	**(14)**	**(18)**	**(11)**	**–**	**(551)**
Non-performing loans net of individual impairment provision	**75**	**80**	**119**	**396**	**63**	**34**	**8**	**6**	**20**	**801**
Portfolio impairment provision										**(362)**
Net non-performing loans and advances										**439**
Cover ratio										**68%**

	30.06.05*									
	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
Loans and advances Gross non-performing	69	124	162	868	63	42	37	16	31	1,412
Individual impairment provision	(28)	(29)	(61)	(302)	(24)	(12)	(29)	(7)	(5)	(497)
Non-performing loans net of individual impairment provision	41	95	101	566	39	30	8	9	26	915
Portfolio impairment provision										(222)
Net non-performing loans and advances										693
Cover ratio										51%

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB.

RISK continued

	31.12.05*									
	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
Loans and advances										
Gross non-performing	81	117	171	856	101	53	22	17	29	1,447
Individual impairment provision	(22)	(31)	(63)	(310)	(61)	(13)	(16)	(9)	(3)	(528)
Non-performing loans net of individual impairment provision	59	86	108	546	40	40	6	8	26	919
Portfolio impairment provision										(278)
Net non-performing loans and advances										641
Cover ratio										56%

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB

Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness. Such accounts and portfolios are subject to a dedicated process with oversight involving senior Risk Officers and Group Special Assets Management (GSAM). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

Loans are designated as impaired and considered non-performing as soon as payment of interest or principal is 90 days or more overdue or where recognised weakness implies that full payment of either interest or principal is questionable. Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where the principal, or a portion thereof, is considered uncollectible, an individual impairment provision is raised being the difference between the loan carrying amount and the present value of estimated future cash flows arising from the loan, including the value of any realisable collateral. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment provision has been raised, then that amount will be written off.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known by experience to be present in any loan portfolio. The provision is not held to cover losses arising from future events. In Wholesale Banking, the portfolio impairment provision is set with reference to past experience using expected loss and judgemental factors such as the economic environment and the trends in key portfolio indicators.

The cover ratio reflects the extent to which the gross non-performing loans are covered by the individual and portfolio impairment provisions. At 79 per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

The following tables set out the total non-performing portfolio in Wholesale Banking:

	30.06.06									
	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**
Loans and advances										
Gross non-performing	**295**	**113**	**32**	**125**	**117**	**28**	**45**	**97**	**219**	**1,071**
Individual Impairment provision	**(176)**	**(85)**	**(31)**	**(45)**	**(104)**	**(23)**	**(30)**	**(57)**	**(204)**	**(755)**
Non-performing loans and advances net of individual impairment provision	**119**	**28**	**1**	**80**	**13**	**5**	**15**	**40**	**15**	**316**
Portfolio impairment provision										**(93)**
Net non-performing loans and advances										**223**
Cover ratio										**79%**

RISK continued

	30.06.05									
	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
Loans and advances Gross non-performing	356	135	50	150	165	79	96	85	489	1,605
Individual Impairment provision	(300)	(116)	(47)	(50)	(148)	(32)	(84)	(50)	(407)	(1,234)
Non-performing loans and advances net of individual impairment provision	56	19	3	100	17	47	12	35	82	371
Portfolio impairment provision										(92)
Net non-performing loans and advances										279
Cover ratio										83%

	31.12.05									
	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
Loans and advances Gross non-performing	355	125	36	156	133	83	60	89	210	1,247
Individual Impairment provision	(257)	(109)	(33)	(51)	(118)	(27)	(48)	(51)	(164)	(858)
Non-performing loans and advances net of individual impairment provision	98	16	3	105	15	56	12	38	46	389
Portfolio impairment provision										(90)
Net non-performing loans and advances										299
Cover ratio										76%

RISK continued

Movement in Group Individual Impairment Provision

The following tables set out the movements in the Group's total individual impairment provisions against loans and advances:

	30.06.06									
	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
Provisions held at 1 January 2006	**279**	**140**	**96**	**361**	**179**	**40**	**64**	**60**	**167**	**1,386**
Exchange translation differences	**–**	**5**	**3**	**23**	**6**	**(1)**	**(1)**	**(1)**	**6**	**40**
Amounts written off	**(37)**	**(51)**	**(24)**	**(63)**	**(185)**	**(33)**	**(33)**	**(6)**	**(4)**	**(436)**
Recoveries of amounts previously written off	**30**	**4**	**6**	**–**	**9**	**9**	**6**	**–**	**1**	**65**
Discount unwind	**(2)**	**(1)**	**(2)**	**(18)**	**–**	**–**	**–**	**(1)**	**(1)**	**(25)**
Other	**(63)**	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**65**	**3**
New provisions	**59**	**36**	**49**	**48**	**203**	**37**	**27**	**25**	**2**	**486**
Recoveries/provisions no longer required	**(63)**	**(15)**	**(30)**	**(19)**	**(14)**	**(16)**	**(15)**	**(9)**	**(32)**	**(213)**
Net charge against/(credit) to profit	**(4)**	**21**	**19**	**29**	**189**	**21**	**12**	**16**	**(30)**	**273**
Provisions held at 30 June 2006	**203**	**118**	**98**	**332**	**198**	**37**	**48**	**68**	**204**	**1,306**

	30.06.05									
	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
Provisions held at 1 January 2005	294	119	127	1	319	43	125	64	457	1,549
Exchange translation differences	2	(4)	–	(3)	(7)	–	(2)	(4)	(6)	(24)
Amounts written off	(48)	(9)	(36)	(17)	(134)	(30)	(27)	(21)	(30)	(352)
Recoveries of amounts previously written off	17	3	5	–	16	11	6	2	5	65
Acquisitions	–	–	–	352	–	–	–	–	–	352
Discount unwind	(3)	(2)	(2)	(9)	(2)	–	1	(3)	(3)	(23)
Other	–	–	4	–	(4)	–	–	–	–	–
New provisions	92	56	26	31	72	57	25	28	2	389
Recoveries/provisions no longer required	(26)	(18)	(16)	(3)	(88)	(37)	(15)	(9)	(13)	(225)
Net charge against/(credit) to profit	66	38	10	28	(16)	20	10	19	(11)	164
Provisions held at 30 June 2005	328	145	108	352	172	44	113	57	412	1,731

RISK continued

	31.12.05									
	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
Provisions held at 1 July 2005	328	145	108	352	172	44	113	57	412	1,731
Exchange translation differences	(9)	2	1	7	(1)	(1)	7	–	(7)	(1)
Amounts written off	(108)	(21)	(22)	(4)	(70)	(36)	(43)	(22)	(193)	(519)
Recoveries of amounts previously written off	32	3	6	5	20	10	8	2	2	88
Discount unwind	–	(1)	(2)	(19)	–	(1)	(1)	1	(2)	(25)
Other	1	–	(4)	–	23	(1)	1	(2)	3	21
New provisions	73	36	36	26	81	48	23	32	10	365
Recoveries/provisions no longer required	(38)	(24)	(27)	(6)	(46)	(23)	(44)	(8)	(58)	(274)
Net charge against/(credit) to profit	35	12	9	20	35	25	(21)	24	(48)	91
Provisions held at 31 December 2005	279	140	96	361	179	40	64	60	167	1,386

Country Risk

Country Risk is the risk that a counterparty is unable to meet its contractual obligations as a result of adverse economic conditions or actions taken by governments in the relevant country.

The GRC approves country risk. The setting and management of country limits is delegated to the Group Head, Credit and Country Risk.

The business and Country Chief Executive Officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Cross border assets comprise loans and advances, interest bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, certificates of deposit, and other negotiable paper and investment securities, where the counterparty is resident in a country other than that where the cross border assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

RISK continued

The following table, based on the Bank of England Cross Border Reporting (CE) guidelines, shows the Group's cross border assets including acceptances where they exceed one per cent of the Group's total assets.

	30.06.06				30.06.05			
	Public sector $million	**Banks $million**	**Other $million**	**Total $million**	Public sector $million	Banks $million	Other $million	Total $million
Korea	**14**	**1,500**	**2,854**	**4,368**	15	1,644	2,228	3,887
Hong Kong	**1**	**480**	**3,846**	**4,327**	2	218	2,731	2,951
USA	**881**	**540**	**2,673**	**4,094**	1,676	830	2,637	5,143
Australia	**–**	**2,667**	**259**	**2,926**	1	1,806	129	1,936
France	**137**	**2,530**	**214**	**2,881**	164	2,032	194	2,390
Singapore	**–**	**716**	**2,132**	**2,848**	1	173	2,075	2,249
India	**2**	**1,028**	**1,652**	**2,682**	49	885	1,252	2,186
China	**57**	**1,073**	**1,322**	**2,452**	41	903	1,233	2,177

	31.12.05			
	Public sector $million	Banks $million	Other $million	Total $million
Korea	13	1,476	2,006	3,495
Hong Kong	1	311	2,776	3,088
USA	1,227	555	2,505	4,287
Australia	–	1,587	242	1,829
France	159	2,550	155	2,864
Singapore	–	326	1,945	2,271
India	1	949	1,456	2,406
China	63	982	1,405	2,450

RISK continued

Market Risk

The Group recognises market risk as the exposure created by potential changes in market prices and rates. The Group is exposed to market risk arising principally from customer driven transactions.

Market Risk is governed by the GRC, which agrees policies and levels of risk appetite in terms of Value at Risk (VaR). The Group Market Risk Committee (GMRC) provides market risk oversight and guidance on policy setting. Policies cover the trading book of the Group and also market risks within the banking book. Trading and banking books are defined as per the Financial Services Authority (FSA) Handbook IPRU (Bank). Limits by location and portfolio are proposed by the businesses within the terms of agreed policy. Group Market Risk (GMR) approves the limits within delegated authorities and monitors exposures against these limits.

GMR complements the VaR measurement by regularly stress testing market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. Ad hoc scenarios are also prepared in response to particular market conditions. A consistent stress testing approach is applied to trading and banking books.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. GRC considers stress testing as part of its oversight of risk appetite.

The stress test methodology assumes that management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

VaR models are back tested against actual results to ensure pre-determined levels of accuracy are maintained.

Additional limits are placed on specific instruments and currency concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. Option risks are controlled through revaluation limits on currency and volatility shifts, limits on volatility risk by currency pair and other underlying variables that determine the options' value.

Value at Risk

The Group uses historical simulation to measure VaR on all market risk related activities.

The total VaR for trading and banking books combined at 30 June 2006 was $9.7 million (30 June 2005: $12.9 million, 31 December 2005: $10.8 million).

Interest rate related VaR for trading and banking books was $9.2 million (30 June 2005: $14.0 million, 31 December 2005: $10.3 million) and foreign exchange related VaR was $2.9 million (30 June 2005: $1.4 million, 31 December 2005: $1.1 million).

The average total VaR for trading and banking books during the period to 30 June 2006 was $10.7 million (30 June 2005: $14.3 million, 31 December 2005: $12.4 million) with a maximum exposure of $12.7 million.

VaR for interest rate risk in the banking books of the Group totalled $8.4 million at 30 June 2006 (30 June 2005: $10.8 million, 31 December 2005: $9.2 million).

The Group has no significant trading exposure to equity or commodity price risk.

The average daily income earned from market risk related activities was $5.5 million, compared with $4.1 million during the period to 30 June 2005 and $4.5 million in the period to 31 December 2005.

Foreign Exchange Exposure

The Group's foreign exchange exposures comprise trading and banking foreign currency translation exposures and structural currency exposures in net investments in non-US dollar units.

Foreign exchange trading exposures are principally derived from customer driven transactions. The average daily income from foreign exchange trading businesses during the period was $2.6 million (30 June 2005: $2.1 million, 31 December $2.0 million).

Interest Rate Exposure

The Group's interest rate exposures comprise trading exposures and non-trading interest rate exposures. Structural interest rate risk arises from the differing re-pricing characteristics of commercial banking assets and liabilities. The average daily income from interest rate trading businesses during the period was $2.9 million (30 June 2005: $2.4 million, 31 December 2005: $2.1 million).

Derivatives

Derivatives are contracts whose characteristics and value derive from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions in the foreign exchange, credit and interest rate markets. Derivatives are an important risk management tool for banks and their customers because they can be used to manage the risk of price, interest rate and exchange rate movements.

The Group's derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes or by using standard industry pricing models.

The Group enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest, credit and exchange rates.

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or for hedging purposes.

The Group applies a future exposure methodology to manage counterparty credit exposure associated with derivative transactions. Please refer to note 28 on page 56 for further information on Market Risk.

RISK continued

Hedging

In accounting terms, hedges are classified into three typical types: fair value hedges, where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, where variable rates of interest or foreign exchange are exchanged for fixed rates, and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars. The Group uses futures, forwards, swaps and options transactions in the foreign exchange and interest rate markets to hedge risk.

The Group may hedge the value of its foreign currency denominated investments in subsidiaries and branches where it considers there is a risk of a significant exchange rate movement. In general, however, management believes that the Group's reserves are sufficient to absorb any foreseeable adverse currency depreciation.

The effect of exchange rate movements on the capital risk asset ratio is mitigated by the fact that both the net asset value of these investments and the risk weighted value of assets and contingent liabilities follow substantially the same exchange rate movements.

Liquidity Risk

The Group defines liquidity risk as the risk that the bank either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access them only at excessive cost.

It is the policy of the Group to maintain adequate liquidity at all times, in all geographical locations and for all currencies. Hence the Group aims to be in a position to meet all obligations, to repay depositors, to fulfil commitments to lend and to meet any other commitments made as they fall due.

Liquidity risk management is governed by GALCO, which is chaired by the Group Finance Director. GALCO is responsible for both statutory and prudential liquidity. These responsibilities are managed through the provision of authorities, policies and procedures that are co-ordinated by the Liquidity Management Committee with regional and country Asset and Liability Committees (ALCOs).

Due to the diversified nature of the Group's business, the Group's policy is that liquidity is more effectively managed in-country. Each Country ALCO is responsible for ensuring that the country is self-sufficient and is able to meet all its obligations to make payments as they fall due. The Country ALCO has primary responsibility for compliance with regulations and Group policy, and for maintaining a Country Liquidity Crisis Contingency Plan.

A substantial portion of the Group's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency.

The Group also maintains significant levels of marketable securities, either for compliance with local statutory requirements or as prudential investments of surplus funds.

The GALCO also oversees the structural foreign exchange and interest rate exposures that arise within the Group. These responsibilities are managed through the provision of authorities, policies and procedures that are co-ordinated by the Capital Management Committee. Policies and guidelines for the maintenance of capital ratio levels are approved by GALCO. Compliance with Group ratios is monitored centrally by Group Corporate Treasury, while local requirements are monitored by the local ALCO.

Policies and guidelines for the setting and maintenance of capital ratio levels are also delegated by GALCO. Group ratios are monitored centrally by Group Corporate Treasury, while local requirements are monitored by the local ALCO.

Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational impact. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control, and report such risks.

The Group Operational Risk Committee (GORC) has been established to supervise and direct the management of operational risks across the Group. GORC is also responsible for ensuring adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

A separate Group operational risk function is responsible for establishing and maintaining the overall operational risk framework, and for monitoring the Group's key operational risk exposures. This unit is supported by Wholesale Banking and Consumer Banking Operational Risk units. These units are responsible for ensuring compliance with policies and procedures in the business, monitoring key operational risk exposures, and for the provision of guidance to the respective business areas on operational risk.

Compliance with operational risk policies and procedures is the responsibility of all managers. Every country operates a Country Operational Risk Group (CORG). The CORG has in-country governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

Compliance and Regulatory Risk

Compliance and Regulatory risk includes the risk of non-compliance with regulatory requirements in a country in which the Group operates. The Group Compliance and Regulatory Risk function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

Legal Risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Group, failure to protect the title to and ability to control the rights to assets of the Group (including intellectual property rights), changes in the law, or jurisdictional risk. The Group manages legal risk through the Group Legal Risk Committee, Legal Risk policies and procedures and effective use of its internal and external lawyers.

RISK continued

Reputational Risk

Reputational Risk is the risk of failing to meet the standards of performance or behaviour required or expected by stakeholders in commercial activities or the way in which business is conducted. Reputational Risks arise as a result of poor management of issues occurring in one or more of the primary banking risk areas (Credit, Market, Operational risk areas) and/or from Social, Ethical or Environmental Risk issues. All members of staff have a responsibility for maintaining the Group's reputation.

From an organisational perspective, the Group manages reputational risk through a combination of Country Management Committees and the Group Reputational Risk Committee. Wholesale Banking has a specialised Reputational Risk Committee which reviews individual transactions. In Consumer Banking, potential reputational risks resulting from transactions or products are reviewed by the Product and Reputational Risk Committee.

A critical element of the role of the Group Reputational Risk Committee is to act as a radar for the Group in relation to the identification of emerging or thematic risks.

At a country level, the Country Chief Executive Officer (CEO) is responsible for the Group's reputation in their market. The Country CEO and their Management Committee must actively:

- Promote awareness and application of the Group's policy and procedures regarding Reputational Risk;
- Encourage business and functions to take account of the Group's reputation in all decision-making, including dealings with customers and suppliers;
- Implement effective functioning of the in-country reporting system to ensure their management committee is alerted of all potential issues; and
- Promote effective, proactive stakeholder management.

Independent Monitoring

Group Internal Audit is a separate Group function that reports to the ARC and the Group Chief Executive. Group Internal Audit provides independent confirmation that Group and business standards, policies and procedures are being complied with. Where necessary, corrective action is recommended.

CAPITAL

The Group Asset and Liability Committee targets Tier 1 and Total capital ratios of 7-9 per cent and 12-14 per cent respectively.

	30.06.06 $million	*30.06.05 $million	31.12.05 $million
Tier 1 capital:			
Called up ordinary share capital and preference shares	**6,067**	5,964	5,982
Eligible reserves	**7,510**	5,466	6,151
Minority interests	**165**	84	115
Innovative Tier 1 securities	**2,186**	1,458	1,542
Less: Restriction on innovative Tier 1 securities	**(492)**	(125)	(83)
Goodwill and other intangible assets	**(4,459)**	(4,233)	(4,321)
Unconsolidated associated companies	**226**	180	186
Other regulatory adjustments	**90**	95	153
Total Tier 1 capital	**11,293**	8,889	9,725
Tier 2 capital:			
Eligible revaluation reserves	**191**	94	195
Portfolio impairment provision	**455**	314	368
Qualifying subordinated liabilities:			
Perpetual subordinated debt	**3,260**	2,618	3,128
Other eligible subordinated debt	**4,325**	4,027	4,169
Less: Amortisation of qualifying subordinated liabilities	**(496)**	(237)	(229)
Restricted innovative Tier 1 securities	**492**	125	83
Total Tier 2 capital	**8,227**	6,941	7,714
Investments in other banks	**(149)**	(24)	(148)
Other deductions	**(207)**	(86)	(173)
Total capital base	**19,164**	15,720	17,118
Banking book:			
Risk weighted assets	**104,466**	95,856	99,378
Risk weighted contingents	**21,477**	16,576	16,274
	125,943	112,432	115,652
Trading book:			
Market risk	**4,249**	6,091	6,701
Counterparty/settlement risk	**4,906**	3,008	3,571
Total risk weighted assets and contingents	**135,098**	121,531	125,924
Capital ratios:			
Tier 1 capital	**8.4%**	7.3%	7.7%
Total capital	**14.2%**	12.9%	13.6%

* The balance sheet as at 30 June 2005 has been restated to reflect the revised fair values of assets and liabilities acquired on the acquisition of SCFB.