

# Rapid growth, strong financial performance and strategic progress



“We see opportunities for growth across our markets and we see room for improvement on every aspect of our performance.”

Peter Sands  
Group Chief Executive

## 2007 Management Agenda

- ▶ Accelerate organic growth
- ▶ Deliver growth from our acquisitions
- ▶ Continuously improve the way we work
- ▶ Building leadership
- ▶ Reinforce the brand

## 2006: A year of growth and progress



### ▶ Pole position in Pakistan

Standard Chartered successfully rebranded all Union Bank's 65 branches overnight. Now with 115 branches in 22 cities, Standard Chartered has strengthened its position as Pakistan's largest international bank.



### ▶ Expansion in Taiwan

Taiwan became Standard Chartered's fourth-largest market by income with the acquisition of Hsinchu International Bank. The acquisition positions Standard Chartered to capitalise on North East Asian trade and investment flows.

Standard Chartered has achieved much over the last five years.

We have delivered on our promises to customers, to staff and to shareholders. 2006 was a year of continued rapid growth, strong financial performance and strategic progress. We start 2007 in great shape, with good business momentum and a clear strategy.

Since 2001 our income has almost doubled. So has the number of employees, to nearly 60,000. Then we had fewer than seven million customers. Now we have over 14 million. Including PT Bank Permata in Indonesia, we now have over 1,400 branches compared with fewer than 550 five years ago. Our normalised earnings per share (EPS) have grown at a compound annual growth rate (CAGR) of 21 per cent.

I am proud to have been Group Finance Director during this period of rapid progress and growth.

The fundamentals of our strategy remain the same. Our goal is to be the world's best international bank, leading the way in Asia, Africa and the Middle East. We have made great progress on our strategic journey, but there is much more to do. We see opportunities for growth across our markets. We see room for improvement on every aspect of our performance. The strategy and immediate management priorities are clear. My job is to make them happen.

#### Our priorities for 2007

- Our top priority for 2007 is to accelerate organic growth. This is the key to shareholder value creation. We increased investment in 2006 and are doing so again in 2007
- We must continue to deliver growth from our acquisitions. We do not buy to grow. We grow what we buy. In 2007 the focus will be on our most recent acquisitions in Pakistan and Taiwan
- We will continuously improve the way we work, enhancing our infrastructure and processes to improve our service to customers and to achieve greater productivity
- We must build leadership capacity, turning talented managers into true leaders. Attracting and developing the next generation of leaders is a critical challenge for me personally
- Finally, we will reinforce the brand. Standard Chartered already has a great brand, but we intend to make it much better known and much more powerful

#### China

2006 was a year of rapid progress for our business in China. We more than doubled income to almost \$300 million, tripled profits, expanded our network to 22 locations in 14 cities and almost doubled our staff numbers.

We believe 2007 will be equally exciting. We plan to incorporate our business, which will enable us to offer renminbi services to Chinese consumers. We are accelerating investment to expand our network, enhance product capabilities and reinforce infrastructure. By the end of the year, subject to regulatory approval, we would like to have around 40 locations.

China Bohai Bank, in which we have a 19.99 per cent stake, is growing fast. From a greenfield start just 12 months ago, the bank has seven locations and around \$1 billion in assets.

China's importance for Standard Chartered goes well beyond the mainland. In Hong Kong, where we have our biggest business, we reach out across the entire Pearl River Delta, and we also benefit from Hong Kong's increasing role as China's international financial centre. Through our relationships with China's leading companies we are deeply involved in the massive growth of China's trade and investment flows across our footprint, for example in Africa.

#### India

India is equally important to us. In 2006 we made profits of over \$400 million, up 69 per cent on 2005. In 2007 we will continue to invest in both businesses.

In Wholesale Banking we are growing right across India and are also working to partner major Indian corporates as they now look to expand outside the country. In Consumer Banking we continue to grow our distribution reach and product offer. We now have 81 branches and 36 consumer finance outlets.

#### Middle East

The Middle East has great organic growth momentum, not just in Dubai, but in Abu Dhabi, Qatar and elsewhere in the region.

We are very well placed to seize the opportunities: our business in United Arab Emirates (UAE) grew income by 32 per cent in 2006. We are leveraging the opportunities in Islamic finance, we see great potential in the Dubai International Financial Centre and we are building our presence in Abu Dhabi.

China, India and the Middle East are three of our biggest opportunities for organic growth. Yet there are many other markets in which Standard Chartered is growing rapidly and where we see great potential. Two examples would be Nigeria and Vietnam.

We drive organic growth not just by geography but also through innovation in the products and services we offer. Our new Private Bank and our corporate finance business are examples.



#### ► Indonesia partnership

The Standard Chartered/PT Astra consortium increased its stake in PT Bank Permata to 89%, creating a platform to provide greater value to customers, staff and shareholders and giving PT Bank Permata a differentiated position in Indonesia.



#### ► Servicing Africa

Standard Chartered's 25% stake in First Africa boosts the Group's capabilities to provide merger and acquisition and leveraged finance services to its clients on Africa-related transactions.

### Private Bank

In 2007, Consumer Banking will be rolling out our Private Bank proposition across six markets. We have already launched successfully in Korea, with Singapore soon to follow.

As a new business, our Private Bank requires considerable investment in people, systems and infrastructure. It has the potential to deliver sustained, high-quality earnings growth.

Our Private Bank will be different in several ways. We are international yet also local. We offer both offshore and onshore banking. We are innovative, but also have history and cherish deep longstanding relationships. Our clients will experience a new and distinctive blend of capabilities.

### Corporate finance

Within Wholesale Banking, our Global Markets business comprises corporate finance, debt capital markets and foreign exchange and derivatives. Corporate finance includes advisory, private equity, principal finance, project finance and structured finance. Corporate finance has grown rapidly. Over the last three years, income has grown by nearly 300 per cent and doubled in 2006 alone.

This success is based on the seamless way in which our client relationship model works with our product teams. As a result, the number of Wholesale Banking clients from which we derive more than \$1 million of income increased by 27 per cent in 2006.

Organic growth for the Group accounted for over two thirds of income growth in 2006. Yet acquisitions also play an important supporting role.

### Acquisitions: Pakistan and Taiwan

In Pakistan we have had a great start. The integration of Union Bank is proceeding rapidly: we rebranded 65 Union Bank branches overnight. With a strong management team drawn from both institutions, we have continued to grow the business, and now have 115 branches.

In Taiwan we are at an earlier stage. We took direct control of the Hsinchu International Bank Board in December, de-listed the bank on 18 January 2007 and are preparing to integrate it with our existing business.

Due to the complexity of legal requirements in Taiwan, the amalgamation of the two entities, upon which the realisation of synergies depends, is unlikely to occur until the second half of 2007. Hsinchu's consumer lending portfolio is more or less as we expected. The small business (SME) portfolio is of mixed quality. We will need to reshape both these portfolios to align with our customer and product profiles.

As a result we anticipate that in 2007 Hsinchu's profit contribution will be offset by the costs of integration, investment initiatives and reshaping the business. We remain confident that Hsinchu will be EPS accretive and will deliver double-digit return on investment in 2008. We can make Hsinchu into a powerful engine of income and earnings growth, capitalising on the opportunities in Taiwan and the rapidly growing trade and investment flows across North East Asia.

### Continuous improvement

The Group has already begun to become much more efficient and effective. Now we intend to accelerate progress through a continuous effort to make the way we work simpler, better and faster.

In 2003 we launched an initiative called Outserve to improve our service to customers. We made great progress with this programme, improving our understanding of customer needs, reducing turnaround times and introducing systematic tracking of customer service metrics across the Group.

To drive further improvement in our quality of service, we recognise that we need to address the fundamental infrastructure and processes of the Group. We have therefore launched Outserve Plus, an umbrella for initiatives to enhance our operational effectiveness. Our aim is to simultaneously enhance our quality of service, make life easier for staff and customers and improve productivity. By doing this, we will create the capacity for accelerated growth.

A good example of the progress we have made is in technology production and operations. This is the core engine of the Group. Through hubbing, re-engineering and selective outsourcing, we have managed to improve efficiency, while substantially upgrading service delivery. Technology, production and operations costs have grown by nine per cent CAGR over the last three years, against income growth of 22 per cent CAGR over the same period.

### Building leadership

A key priority for 2007, and one on which I place great personal focus, is building leadership. To fulfil our ambitions, we must accelerate the development of talented people across the Group, turning good managers into true leaders, people with the right values and capabilities to drive the business forward.

We already have a highly talented and diverse team of people, and a culture that combines performance edge with a cooperative style and a strong set of shared values. The Group is an environment



#### » Commitment in Middle East

Standard Chartered was the first bank in the Dubai International Financial Centre to buy its premises and to obtain a commercial banking licence. This reinforces the Group's commitment to United Arab Emirates and to Dubai as the region's business hub.



#### » Unique sponsorship

Standard Chartered launched the third series of The Greatest Race on Earth 2006/2007. This unique race is based on teamwork and underlines the Group's core values and its promise to be The Right Partner – Leading by Example.

that stimulates, develops and provides new opportunities. But we are not complacent. We want to develop our existing talent further and faster and attract more potential leaders.

To make this happen we are expanding and improving our graduate and MBA recruitment and development, increasing external hiring and refreshing our approach to training programmes. We also welcome the management talent that has come into Standard Chartered with our recent acquisitions.

### Reinforce the brand

Standard Chartered is a great brand, one that is well known across our franchise. We have begun to leverage the brand more effectively over the last few years but believe that there is much more we can do. Our goal is that everyone in our markets understands our brand promise to be The Right Partner – Leading by Example and recognises our trustmark.

We will achieve this partly through external marketing but, equally importantly, through the way we use the brand internally. We need the brand to be embedded in everything we do and to inform every interaction with customers.

Our brand is also about the way we act within the communities in which we work. For example, we are very proud of our achievements with Seeing is Believing, our campaign to address preventable blindness. Here we have certainly been leading by example and had a huge impact.

In the same way we are now putting a lot of focus on the environment and sustainable development, working out what role we should play on issues like climate change.

These are our priorities for 2007 – accelerating organic growth, delivering on acquisitions, continuously improving the way we work, developing leadership and talent and reinforcing our brand.

### Outlook

We start 2007 in great shape with good momentum. While there are many potential risks and uncertainties in the world, our businesses are performing strongly and we are clear about our strategy and priorities.

For the Group as a whole, including Korea and our acquisitions, we anticipate:

- Continued good income momentum with both businesses delivering good double-digit income growth for the full year
- Accelerated investment and improved productivity. We are accelerating investment in new products, new capabilities

and in extending distribution. Yet we are also accelerating our drive for improved productivity, with a range of initiatives to re-engineer process, increase hubbing and enhance infrastructure. In the first half of 2007, expenses growth will exceed income growth largely due to accelerating investment in Consumer Banking, particularly in China and in the Private Bank. However, taking the year as a whole we expect expenses to grow broadly in line with income

- Continued focus on risk management. In Wholesale Banking, we are not as yet seeing any deterioration in our portfolio, but we do anticipate a reduction in the potential for recoveries as the stock of impaired assets falls. In Consumer Banking, we expect the impairment charge to reflect the improving environment in Taiwan balanced by the inclusion of our most recent acquisitions and the changing mix and maturity of the portfolio, such as the growth of the unsecured and SME portfolios

### Summary

2006 has been another very good year for Standard Chartered. I would like to thank our customers and shareholders for their support, and the Group's staff for their professionalism, enthusiasm and commitment. We look forward to another good year.

**Peter Sands**  
Group Chief Executive  
27 February 2007



### » Brand impact

Our new corporate brand campaign helped to drive strong performance and had a big impact on our business by driving deeper engagement and emphasising our philosophy of partnership and teamwork across our global network.

